

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***Semiannual Report
to the Congress***

September 30, 1996



Under the provisions of the Inspector General Act of 1978, Public Law 95-451, as amended, we report twice yearly to the Congress on the activities of the Office of Inspector General. We describe the major problems, abuses, and deficiencies identified during audits, inspections, and investigations, along with our recommendations for corrective action.

Requests for this document, in this form or in an alternative format to meet the needs of persons with disabilities, should be addressed to Office of Inspector General, U.S. Department of Commerce, Room 7721 HCHB, 14th & Constitution Ave., NW, Washington, DC 20230. Telephone requesters can call (202) 482-1934 or TDD (202) 482-5897.

Message for the Secretary



October 31, 1996

The Honorable Michael Kantor
Secretary of Commerce
Washington, DC 20230

Dear Mr. Secretary:

This report provides a comprehensive overview of Office of Inspector General activities for the second half of fiscal year 1996. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you wish to add, to the appropriate congressional committees within 30 days.

This semiannual period has seen cuts in Commerce programs and projects, causing reductions in force for some agencies and delays in planned expansions of programs and facilities for others. During this time of intense scrutiny, the Department must continue its efforts to strengthen management and improve planning so that it can better support and defend program decisions and budgetary priorities.

To assist the Department in meeting the upcoming challenges, we will continue to focus our efforts on the implementation of key Department programs and activities, including the National Weather Service modernization, the Commerce Administrative Management System, the 2000 decennial census, the major construction projects for NIST and NOAA, and key technology and trade initiatives.

I greatly appreciate your support in addressing the issues facing Commerce. We look forward to an exciting and challenging period for the Department and to our continued collaborative efforts to achieve a more effective organization.

Sincerely,

A handwritten signature in black ink, reading "Francis D. DeGeorge".

Francis D. DeGeorge
Inspector General

Enclosure



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Message for the Congress



FOREWORD

Major ongoing initiatives have been and will continue to be the focus of our efforts to improve the management and administration of Department of Commerce programs. As we all strive for more effective management of Commerce programs and projects, our recommendations should be of use to the Congress and the Administration.

This report discusses our concerns about NOAA's approach in implementing congressional guidance concerning the elimination of the NOAA Corps and fleet; the adequacy of planning for the 2000 decennial census; the progress in design and deployment of the Advanced Weather Interactive Processing System, a key component of the weather service modernization; and a number of concerns about the Department's financial management and bureau facility construction efforts and procurement practices.

During the next reporting period, we will also evaluate how NOAA polar satellite program managers identify and report unspent funding and control the cost of obtaining polar satellite meteorological data; assess significant changes to GOES-NEXT satellite plans and ground systems; and review how Census specifies and implements computer systems to capture, process, analyze, and manage decennial information.

We also plan to review how well the Department is meeting requirements of the Government Performance and Results Act; conduct more in-depth cost audits of Advanced Technology and Manufacturing Extension Partnership program grants; and continue our oversight of the planning and implementation of the Commerce Administrative Management System.

Finally, the U.S. and Foreign Commercial Service has undertaken a number of program initiatives—such as the Big Emerging Markets, U.S. Commercial Centers, Export Assistance Centers, and the integration of domestic and foreign service personnel—that have generated increased exporting opportunities and challenges for effective management. To monitor these initiatives, we need to expand our overseas inspections program of US&FCS sites. This expanded coverage also will enable us to better respond to long-standing congressional interests and concerns and to meet the requirements of the 1988 Omnibus Trade and Competitiveness Act. In this respect, we have included a request for a program increase in our FY 1998 budget to cover travel expenses for these overseas inspections.

A handwritten signature in black ink, reading "Francis D. DeGeorge".

Francis D. DeGeorge
Inspector General

MAJOR AREAS OF CONCERN

This section highlights what we consider to be the major areas of concern for the Department. By addressing these areas, the Department and the Congress can improve program management, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve significant cost savings.

NOAA Fleet and NOAA Corps

Decommissioning the Fleet

In our last semiannual report (see March 1996 issue, page 43), we explained why NOAA should move rapidly to decommission its old, inefficient ships and should outsource for data collection and modern ship services. In addition to saving hundreds of millions of dollars in capital investments, outsourcing would give the programs access to state-of-the-art technologies and more cost-effective vessels. (See page 45 for a discussion of a related report.)

The continuing delay in decommissioning NOAA's inefficient fleet has serious consequences: (1) data collection is more expensive than it needs to be, (2) programs are becoming increasingly vulnerable as they rely on ships that are near the end of, or have exceeded, their useful lives, (3) NOAA remains in direct competition with the private sector for many of its data-gathering missions, particularly those related to nautical mapping and charting, and (4) ship disposal costs are increasing and further delays will result in additional costs to the taxpayers.

NOAA's current level of funding for marine services, approximately \$60 million, is sufficient for obtaining equivalent services through outsourcing. However, the \$60 million appropriation is insufficient to continue the NOAA Corps at current authorized staff levels, while purchasing substantial external marine services and making minimum repairs to current ships. These funds should instead be appropriated directly to the line offices that require the services. In addition, the funding for fleet replacement and modernization, \$8 million in FY 1996, should be phased out over the next three years; until then, it should be used to pay for disposing of NOAA's old and deactivated ships.

Census Bureau Management

on the decennial census, in particular its response to our long-standing concerns about the 2000 census design and overall project management (see

feasibility and readiness of key design components, (2) the completion and implementation of a substantiated design, and (3) the adequacy of planning

The bureau's statistical sampling plans are a prime example of design components that have not been finalized. To ensure a successful,

sampling for non-response, is designed to reduce staffing needs and

time for the second application to be used. The second, *integrated coverage*, which occurs near the end of census operations, is designed to measure and correct for the expected undercount of poor and minority

The bureau's plan for the first use is, after enumerating 90 percent of the households in each neighborhood, to draw a one-in-ten sample of the

population so late in the census neither significantly lessens the complexity or cost of the census, nor saves much time. While many aspects of the

for ensuring an accurate count, have been completed, the bureau will not finalize its plans until at least next fiscal year. This delay is unnecessary and

the tight schedule.

The bureau's reliance on new automated systems and methods,

controversial. If the design is not completed, is insufficiently funded, or does not include sampling, the census will either cost more, or be delayed, or

concern by cutting the bureau's budget and threatening to prohibit sampling.

Message for the Congress

NOAA Satellite Programs

Polar Satellite Program

In our ongoing inspection of the NOAA polar satellite program, we have identified an estimated \$89 million in excess spacecraft funds. NOAA's polar orbiting satellites are acquired by the National Aeronautics and Space Administration (NASA) under a 1973 Commerce-NASA memorandum of agreement. NOAA transfers funds annually to cover NASA management services and the costs to build and launch the satellites. However, for a variety of reasons—including delayed contract awards and NOAA's extending its need dates for the satellites—funds have not been needed for the year in which they were appropriated. Although NOAA realizes that excess funds have been accumulating in the program, it has continued to transfer such unneeded balances to NASA, apparently to avoid reporting carryover of excess funds at fiscal year end.

NOAA and NASA's policy is to maintain 3 months' worth of funds at the end of the year to cover contract costs; however, funds at NASA have far exceeded the balance that this policy would suggest. Therefore, we requested that NOAA not send additional FY 1996 funds to NASA until excessive funding levels could be determined. NOAA complied with our request and will report the funds it planned to transfer as carryover. For NOAA, the substantial amounts of FY 1996 carryover will greatly reduce the amount of funding needed in FY 1997. We have notified the Department of these excessive balances, and will soon be issuing an inspection report that will identify the specific amount of excess funds and make recommendations for improving NOAA's fiscal management policies.

GOES Follow-On Acquisition

NOAA maintains a two-satellite configuration of Geostationary Operational Environmental Satellites (GOES). GOES are placed in geostationary orbit (22,300 miles above the Equator) so they can constantly view weather patterns affecting the United States and neighboring countries. The National Weather Service (NWS) uses GOES data to issue advance warnings of severe storms, such as tornados and hurricanes, and to forecast regional weather.

After a five-year delay, the first two of five GOES-Next series satellites have been launched and are providing high-quality meteorological follow the GOES-Next series. Because of the importance of maintaining continuity of coverage, and the high quality of data being produced, NOAA series. However, because both operational GOES-Next satellites have experienced some reliability problems, NOAA is concerned about a delivered. As a result, NOAA is considering alternatives for rapid delivery of one or two additional stop-gap satellites.

from the current GOES-Next contractor, which would use the 1985 vintage GOES-Next satellite design and equipment. However, purchasing stop-gap regulations and may be unnecessary because the industry could deliver the first of the follow-on series by 2001, if a competitive procurement is

Because of the delay in starting the competitive procurement, NOAA is evaluating plans to insure against a coverage gap. One alternative beginning with the purchase of long-lead items from the current manufacturer. This phased procurement would not be completed if the projected or if development of the first follow-on satellite is on track for delivery before the expected coverage gap.

into an agreement for a phased procurement of one stop-gap satellite from the GOES-Next contractor and competitively procure the follow-on

GOES-Next series and should be for a fixed price, which is likely to result in substantial cost savings.

Message for the Congress

NWS Modernization

In early October, NOAA requested the Secretary's approval to begin the nationwide deployment of the Advanced Weather Interactive Processing System (AWIPS)—a decision milestone in the modernization plan termed "Key Decision Point IV." In our March 1996 issue (see page 6), we reported that NOAA is rushing to field AWIPS prematurely at a hardware cost of at least \$100 million. At the time NOAA planned for nationwide deployment to begin, the system would have been only minimally developed and would not be proven to be able to do the job for which it was built, risking additional cost growth and technical problems. As a result, we recommended that this decision be delayed. AWIPS's performance during the recent operational test and evaluation, which we observed, reinforced our position. AWIPS exhibited functional and performance defects that indicate the software lacks stability, maturity, and usability. The Secretary agreed that nationwide deployment should be delayed and did not approve Key Decision Point IV.

After four years of Development Phase effort on AWIPS, its capabilities are minimal and its performance is inadequate. Before the operational test and evaluation was even begun, NWS had already decided to replace or supplement AWIPS with a system developed internally by NOAA—WFO-Advanced—because of its superior user interface, data management system, and meteorological capabilities. WFO-Advanced was built by the Forecast Systems Laboratory, a component of NOAA's Office of Oceanic and Atmospheric Research, to evaluate new meteorological concepts and techniques and to assist the AWIPS program with risk reduction. WFO-Advanced, which was installed in the Denver Weather Forecast Office in May, is at least two years ahead of AWIPS and is effectively supporting forecast operations. WFO-Advanced is used in the Denver office in place of NWS's current operational system, Automation of Field Operations and Services, except to distribute forecast products.

While we strongly support the use of WFO-Advanced, it represents a fundamental change to the program. Although WFO-Advanced and AWIPS use similar hardware, the software architectures of the two systems are completely different. Consequently, they cannot be easily merged. At best, a limited number of AWIPS components could be used with WFO-Advanced, but WFO-Advanced—not AWIPS—will probably become the basis for future development.

Before the Secretarial decision is requested again, NOAA should operationally test WFO-Advanced at the AWIPS Development Phase sites.

management changes needed before proceeding in this new direction. In addition, NOAA should establish a new cost, schedule, and technical

and information on how the program will proceed, including its new baseline, and what its future direction will be, should be presented in

Facilities Planning and Laboratory Consolidations

pressures to downsize its operations, it needs to closely examine both its construction plans for new facilities and its existing research laboratories.

and renovation of research facilities, weighing costs and benefits, and consider alternative ways of meeting mission requirements. The OIG has

National Institute of Standards and Technology.

We have continued our review of NIST's major Capital

consultant study indicating that most of the agency's laboratories will fail to meet program needs within this decade without construction or renovation

encompasses projects at NIST's two major laboratory facilities—in Gaithersburg, Maryland, and Boulder, Colorado.

part of our review, in which we evaluated whether NIST's two-site operation could be consolidated, and examined the need for proposed construction of

page 59). We concluded that consolidating NIST's two sites is not feasible and that construction plans for a new advanced technology laboratory in

Message for the Congress

In the second part of our review, completed this period, we analyzed the procurement of leased office space in Gaithersburg that was intended primarily to provide “swing space” to allow other space to be renovated (see page 56). We concluded that NIST did not adequately assess the impact of major changes to its original plans on the need for space; as a result, it unnecessarily committed itself to a 10- to 15-year lease that may cost from \$31 million to \$47 million. Moreover, the space is being used not for swing space, but for freeing up space for the expansion of NIST's laboratory operations. Finally, NIST did not follow departmental approval procedures for leasing space.

We also analyzed the validity of a large portion of NIST's FY 1995 CIFP obligations, specifically over \$50 million in obligations for architecture and engineering services and for construction management (see page 57). Our analysis disclosed that NIST had improperly obligated over \$30 million of those funds in violation of federal regulations.

Finally, we are currently reviewing NIST's management of its CIFP construction program. During this review, our examination of a solicitation in process raised concerns about a lack of competition for the pending contract award (see page 58). We are concerned that the CIFP construction effort might be awarded to only one source for both initial and future requirements. We believe that enabling a single contractor to lock in as much as \$480 million in NIST construction projects spanning up to 10 years would be unwise.

Financial Management

We continue to work with the Department to improve its financial management. We have also worked with individual Commerce bureaus to develop comprehensive corrective action plans to address the material weaknesses and reportable conditions disclosed in their FY 1995 financial statement audits. NOAA, EDA, and ITA—the larger Commerce bureaus that are still receiving disclaimers of opinion in their financial statement audits—have made strides in improving their accounting operations. However, it is unlikely that the Department's consolidated financial statements for FY 1996 will receive more than a disclaimed audit opinion.

We also continue to monitor the status of the Department's Commerce Administrative Management System (CAMS). The Chief Financial Officers Act of 1990 (CFO Act) requires each agency to "develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls." To meet this requirement, CAMS is being designed to provide a set of Department-wide functional/financial systems for travel, procurement, real and personal property, grants, and payroll linked to a Core Financial System.

In FY 1992, Commerce estimated that it would cost \$41 million for an integrated financial management system. Since then, the CAMS cost estimate has increased to \$56 million. Further, management is considering three additional CAMS-related initiatives originally projected to cost up to another \$14 million. The revised development costs for CAMS also do not include substantial costs projected for in-house CAMS staff resources and earlier "pre-development" costs. The Department's probable total investment in CAMS will be far in excess of initial estimates. In addition, CAMS deployment schedules have been significantly extended, and key Commerce bureaus have adjusted their estimated CAMS deployment dates by from one to two years.

Finally, some of the Department's accounting and feeder systems use two-digit year dates that cannot function beyond December 31, 1999. Rather than reprogram those systems, which would be costly and time-consuming, the Department's primary strategy is to replace them with CAMS before the year 2000, putting more pressure on the need to complete CAMS despite present slippage. Further, the 2000 decennial census will need to be supported with an updated accounting system. We are concerned that delays could extend CAMS deployment dates into 2000 and beyond.

CAMS needs close, top-level Department oversight. The increasing costs, extended deadlines, and short time frames to accomplish CAMS implementation Department-wide are of serious concern to this office.

CyberFile: Procurement Deficiencies at NTIS and the Department

In conjunction with an evaluation of the National Technical Information Service's overall operations and our continuing interest in departmental procurement operations, we looked at NTIS procurement practices (see page 64). We observed numerous procurement deficiencies at NTIS that were exemplified by the failings of the CyberFile project. CyberFile was an ambitious undertaking by NTIS arranged through an interagency agreement with the Internal Revenue Service (IRS). If successful, CyberFile would have allowed U.S. taxpayers to file their tax returns electronically via the Internet or dial-in modem line. Unfortunately, serious procurement deficiencies and flawed contracting practices by both NTIS and Department officials played a major role in the costly failure of the project.

Poor Planning and Mismanagement of Contract and Program Requirements. NTIS failed to adequately plan for CyberFile, failed to pass along to its contractors and subcontractors critical statement of work requirements from the IRS interagency agreement, and over-relied on support contractors for project management. The NTIS program office never achieved a clear idea of CyberFile's development cost, which opened the door to a host of other problems. Statements of work were poorly written, were out of date upon issuance, and failed to incorporate critical technical specifications required by the IRS interagency agreement. In employing a support services contractor as a *de facto* program manager, NTIS failed to ensure that full accountability for implementing CyberFile development extended to the contractor. Direction of performance and contract changes were never reduced to changes in either the IRS interagency agreement or the support contract.

SBA 8(a) Contract Mismanagement. NTIS, working through the Department, utilized a sole-source Small Business Administration 8(a) contract for most of the CyberFile development and program management activities. Because an adequate estimate of CyberFile development costs was lacking, the contract was quickly used to capacity and allowed to exceed its \$3 million ceiling. In addition, NTIS and Department contracting officers failed to incorporate mandatory clauses in the contract to prevent such abuses of the task order contract. Finally, the contract was improperly used as a "pass-through" for ineligible subcontractors.

Unauthorized Contractor Work. NTIS program officials improperly authorized millions of dollars of contract work without a clear understanding of the work specifications and contractual terms. While NTIS subsequently authorized the award of two contract actions totaling \$3.7 million through another government agency to cover this contractual shortfall, this action amounted to a contract ratification that was completed without legal review and was outside NTIS's authority. In a second instance of unauthorized work, a support services contractor submitted a contract claim for \$1.6 million alleging that NTIS authorized the effort but failed to provide formal contractual coverage.

Task and Delivery Order Contract Mismanagement. NTIS violated a number of procurement statutes and regulations in its handling of delivery and task order contracts. Specifically, NTIS (1) failed to justify its procurement actions through Justification for Other than Full and Open Competition approvals, (2) failed to conduct cost or price analyses to ensure that prices paid were fair and reasonable, (3) split delivery orders to remain below the maximum order value allowed by a General Services Administration schedule contract, (4) allowed unauthorized, non-warranted NTIS personnel to act as contracting officers, and (5) failed to obtain departmental legal approval for delivery order contract actions.

Non-Warranted Personnel Entering into Multimillion-Dollar Contracts. NTIS program personnel made excessive use of interagency agreements to procure goods and services for the CyberFile project. In some cases, these agreements were used to purchase millions of dollars of computer equipment from existing contracts or the General Services Administration schedule. In other cases, these agreements were used to improperly ratify previously unauthorized work and provide a contract vehicle for billing. Contrary to federal procurement regulations, no NTIS or Department contracting personnel were involved in the placement of some \$8.5 million of such ratifications and equipment orders. Further, none of the agreements were reviewed by departmental legal counsel for legal sufficiency.

Insufficient Department Procurement Oversight. The Department has failed to provide guidance to and oversight of the procurement operation at NTIS. NTIS, with an extremely limited procurement staff, agreed to develop CyberFile and entered into an interagency agreement amounting to \$22 million (equal to almost half of NTIS's annual budget) with little departmental involvement or oversight.

RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (April 1, 1996) for which no management decision has been made by the end of the period (September 30, 1996). The following table presents the overall status.

Type of Audit Report	Unresolved
Performance	1
Financial Assistance	2
Financial Statements	0
Preaward Contract	7
Postaward Contract	1

The unresolved performance audit relates to NOAA's need to streamline its headquarters and support operations. NOAA did not disagree with development and implementation of a plan for streamlining headquarters functions, but it did disagree with the OIG's recommendations for the elimination of positions in specific areas and the timing of those actions. Details are presented on page 50.

The two unresolved financial assistance audits involve NOAA awards. Both audit reports remain unresolved for over a year. Audit resolution proposals have been submitted; however, OIG-NOAA discussions have not been able to resolve the reports. Additional details are presented on page 51.

Discussion of the seven unresolved NOAA preaward contract audits can be found on page 77.

A postaward contract audit involving a Census Bureau contract has been unresolved since our report was issued three years ago (see September 1993 issue, page 33). The OIG audit questioned more than half of the costs claimed by a nonprofit trade organization, due mainly to violations of federal procurement regulations. Census and the OIG have worked closely to finalize a resolution. A Census contracting officer's decision is expected to be issued before December 31, 1996. Additional details are presented on page 31.

Message for the Congress

Department Administrative Order 213-5, "Audit Resolution and Follow-up," provides procedures for management to request a modification to an approved audit action plan, or for a financial assistance recipient to appeal an Audit Resolution Determination letter. The following table summarizes the activity during the reporting period.

Report Category	Modifications	Appeals
Actions pending (April 1, 1996)	2	9
Submissions	0	3
Decisions	2	2
Actions pending (September 30, 1996)	0	10

The 10 appeals pending final decisions by the Department include 7 EDA and 3 MBDA financial assistance audits.

Message for the Congress

Audit and Inspection Statistical Highlights

Questioned costs this period	\$2,996,687
Value of audit recommendations this period that funds be put to better use	\$94,529,824
Value of audit recommendations agreed to this period by management	\$35,437,174
Value of inspection recommendations this period that funds be put to better use	\$19,300,000

Investigative Statistical Highlights

Indictments	2
Convictions	2
Personnel actions ¹	40
Administrative actions ²	16
Fines, restitutions, judgments, and civil and administrative recoveries	\$12,825

¹Includes suspensions, reprimands, demotions, removals, reassignments, and resignations or retirements in lieu of adverse action.

²Includes actions to recover funds, new procedures, and policy changes that result from investigations.

Allegations Processed by OIG Investigators



35 Accepted for
Investigation
60 Referred to
Operating Units
25 Evaluated But
Not Accepted for
Investigation or
Referral

120 Total

In addition, numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.

OIG HOTLINE

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The **Bureau of Export Administration** directs the nation's export control policy. Its major functions include processing export license applications, conducting foreign availability studies to determine when products should be decontrolled, and enforcing U.S. export control laws. Its administrative and enforcement activities are carried out by separate offices:

Export Administration. This office oversees export licensing, technology and policy analysis, and foreign availability determinations. It works to reduce processing times for granting licenses, decontrolling the technologies that offer no real threat to U.S. security, and eliminating unilateral controls in areas where widespread foreign availability exists.

Export Enforcement. This office investigates breaches of U.S. export control laws and analyzes export intelligence to assess diversion risks. It also administers and enforces the antiboycott provisions of the Export Administration Act.

Export License Application Screening Process Operating Well

The National Defense Authorization Act for FY 1996 requires the Inspectors General of the Departments of Commerce and State to individually report each year on the effectiveness of each agency's export licensing screening process during FYs 1995 and 1996. BXA is responsible for controlling the export of dual-use commodities, which includes coordinating with the defense and intelligence communities on issues dealing with technology transfers and possible diversions.

A sophisticated BXA computer system screens export license applications against an internal database, often referred to as a "watch-list," containing the names of more than 38,000 parties that have been identified as warranting increased scrutiny for export licensing purposes. Applications flagged by the system are reviewed to determine if there is any derogatory information in the files concerning the parties or if the applications raise any other export concerns.

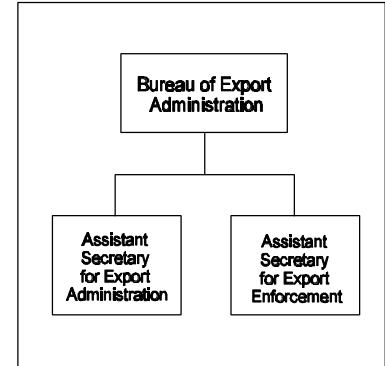
Another important component of the export licensing process is end use checks, which consist of pre-license checks and post-shipment verifications. Pre-license checks, conducted before the approval of a license application, obtain information about foreign parties to determine if they are suitable for receiving sensitive U.S. items. Post-shipment verifications, conducted after an application is approved, determine whether the item was received by the party named on the license.

During our review, we made the following observations:

- ! The export licensing watchlist generally contains all relevant information.** BXA's procedures for managing and updating its screening database have generally been effective. However, a small percentage of the names that received unfavorable results from end use checks, or were provided by the Treasury and State Departments during FY 1995, were not in the database. BXA officials said that most of the omissions occurred because of clerical inputting errors when the names were received from Treasury and State. To eliminate the errors inherent in manually adding names from Treasury, we recommended that BXA arrange for electronic transfer of the Treasury information. We also recommended that BXA either arrange for the electronic receipt of database information from State or provide for the electronic transfer of all license applications to State so that they can be screened through its license screening database.

Bureau of Export Administration

! **The screening process ensures that license applications involving watchlist parties are appropriately reviewed.** During FY 1995, BXA received 9,989 license applications, of which 4,155 involved parties in the watchlist database. BXA gives greater scrutiny to applications involving such parties than it does to other licenses in order to assess diversion risks, identify potential violations, and determine the reliability of proposed consignees as recipients of controlled items. In addition to BXA's internal screening process, several other federal agencies with an interest in export licensing, including the Customs Service, review applications related to their areas of responsibility. Generally, we concluded that the overall screening process is effective in ensuring appropriate levels of review.



However, Customs reviews only applications on which final action has been taken by BXA; it does not see pending applications. We believe that screening *all* license applications through Customs' automated system would result in enhanced reviews of potential exports. Accordingly, we recommended that BXA either request Customs to provide BXA with an on-line terminal for that system or furnish all license application information to Customs for screening through the system.

! **Most end use checks performed for applications received from parties on the watchlist were conducted properly.** Of 620 end use checks initiated by BXA during FY 1995, 134 were post-shipment verifications performed by personnel at ITA overseas offices or by BXA officers on travel. Although the ITA offices are generally following the end use check guidance, some checks were not performed by a U.S. official or did not include the required on-site visit.

BXA issued new guidance on end use checks in March 1995 and a revised handbook in March 1996. These documents establish more stringent criteria for conducting checks and re-emphasize on-site visits. We will examine the effectiveness of the guidance and handbook during a follow-up review of the license screening process. In addition, we will examine the procedures used to conduct end use checks at ITA offices we visit during upcoming overseas inspections.

In responding to our draft report, BXA agreed with our findings and endorsed all but one of our recommendations, which it plans to study further. (*Office of Inspections and Program Evaluations: IPE-8647*)



Economic Development Administration

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965 to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants to public and private nonprofit organizations; loan guarantees to industrial and commercial firms; technical assistance and grants to communities and firms with problems that are stifling economic growth; planning grants to states, cities, districts, and Indian reservations; and special economic adjustment assistance to states and local governments with recent, severe problems or long-term economic deterioration.

Revolving Fund Will Have \$61 Million Surplus

During this semiannual period, the OIG reported on the results of the second phase of its two-phase review of EDA's contingent liability accruals. The first phase consisted of a review of EDA's accruals for non-acquired guaranteed loans (see March 1996 issue, page 22). This second phase consisted of a review of EDA's accruals for environmental cleanup costs and an evaluation of the Economic Development Revolving Fund's capitalization level.

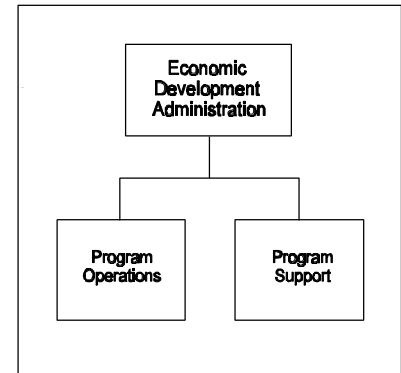
The Public Works and Economic Development Act of 1965 established the Revolving Fund to hold appropriations, collections, and loan repayments for a business loan and guarantee program. Through its various economic development programs, EDA generates portfolios, some of which may become delinquent and are collected through various liquidation strategies. As a result, EDA may obtain ownership interests in real estate that was pledged as collateral for now delinquent loans and defaulted loan guarantees.

During the late 1970s and early 1980s, EDA acquired several properties contaminated with environmental pollutants or hazardous waste. As the owner of these properties, EDA is legally liable for environmental cleanup costs, even though it was not responsible for the original contamination. Consequently, EDA has accrued \$82.5 million of contingent liabilities in the Revolving Fund for future cleanup of these properties.

One of the properties is a former steelworks, in which EDA has a 90-percent interest as a beneficiary of a trust that owns the property. In 1995 the Army Corps of Engineers estimated that EDA would need to spend \$100 million for cleanup. Based on later developments, but without confirming its action with the Corps, EDA reduced the contingent liability in its FY 1995 financial statements to \$75 million. In a settlement of certain EDA claims against a former owner of the property, EDA's interest in the trust is to be transferred to the former owner and EDA is to be relieved of responsibility for conducting the costly environmental cleanup.

Our review resulted in two primary recommendations:

- ! **EDA needs to substantially increase its environmental cleanup cost accruals.** EDA understated its contingent liability for environmental cleanup costs by a net amount of \$22.15 million. Specifically, EDA reduced the steelworks loss contingency by \$25 million without obtaining confirmation from the Corps of Engineers. However, this amount must be offset by \$2.85 million because EDA overestimated another cleanup cost by \$850,000 and accrued an additional \$2 million for general contingent cleanup costs without adequate substantiation. We recommended that EDA increase the Revolving Fund's FY 1995 environmental cleanup cost accruals by \$22.15 million.
- ! **After the steel trust sale is closed, the \$61 million surplus should be put to better use.** Once the sale of EDA's 90-percent interest in the steel trust is closed, the Revolving Fund will be substantially overfunded. The sale will result in the transfer of the liability for environmental cleanup costs, thus eliminating the need for the accruals in the financial statements. EDA's cash reserves for meeting its accruals will then substantially exceed the accruals and other funds reserved for future needs. EDA's estimate of the excess, with which we concur, is about \$61 million. We recommended that after the sale is closed, EDA inform the Congress that an estimated \$61 million in the Revolving Fund will be available for rescission or other authorized use.



EDA agreed with our findings and committed to implementing our recommendations. It later submitted an audit action plan, which we approved as being fully responsive to our recommendations. (*Economic Development Division: EDD-8732-6-0001*)

Audit of EDA's FY 1995 Financial Statements

The CPA firm that the OIG contracted with for an audit of EDA's FY 1995 Statement of Financial Position was unable to express an opinion on the statement because of inadequacies in the accounting records and deficiencies in the agency's internal control structure. Also, accounting data was provided late, impeding the progress of the audit. Moreover, the Department's General Counsel did not provide the required legal representation letter, without which it is not possible to receive anything other than a disclaimer of opinion.

The firm identified 10 material weaknesses in EDA's internal control system.

- ! The agency's financial control structure was inadequate and ineffective.
- ! Management misapplied accounting principles relating to environmental loss contingencies.
- ! Procedures were not established to ensure that all unobligated/deobligated appropriations were included in the financial statements.
- ! Procedures were not established to record accrued grant expenses accurately.
- ! Incompatible duties relating to computer program changes were not properly segregated.
- ! Controls over logical security were not properly designed.
- ! Intra-entity activities for combined financial statement purposes were not properly recorded.
- ! Adequate supporting documentation was not maintained for the balance of unbilled accounts receivable in the Salaries and Expenses Fund.
- ! Amounts included in net position were misclassified and could not be substantiated.
- ! Information provided in the overview contained misstatements and was not adequately supported.

The firm also identified 11 additional reportable conditions.

These internal control deficiencies indicate serious problems in EDA financial management that must be addressed before the agency can have reasonable assurance that amounts reported in the financial statements are fairly stated. Due to the number and magnitude of material weaknesses and reportable conditions, EDA needs to initiate immediate corrective actions. We recommended that EDA establish a Chief Financial Officer position and designate sufficient resources to operate, maintain, and improve its accounting system. EDA responded with a comprehensive action plan, outlining an aggressive strategy for addressing the problems. (*Financial Statements Contract Audit Division: FSD-7839-6-0001*)

Revolving Loan Fund Had Over \$1 Million in Excess Cash

A Northeastern city was awarded a \$4 million EDA grant in 1979 to capitalize a revolving loan fund (RLF) to stimulate economic development. As of September 1995, the RLF's total capital balance was \$4.8 million.

An OIG audit found that the city's RLF had averaged \$1.4 million in excessive cash reserves over the last five years. The city has been able to maintain the excess cash by overstating its loan commitments in reports to EDA. Maintaining large cash reserves violates EDA guidelines and conflicts with the program's objectives of making loans to create and save jobs.

The excessive reserves exist because the RLF's lending has not kept pace with its income. Simply put, either the city is not making needed loans or the financial assistance is not needed. If it is not needed, the RLF is overcapitalized and EDA should recover the excess cash, which currently totals about \$1.3 million. EDA is evaluating a city proposal for better using the reserves.

Moreover, since 1991, the city has charged the RLF over \$400,000 in administrative costs based on a percent-of-cost allocation plan developed in 1990. Charging costs on other than an actual cost basis violates EDA guidelines and federal regulations.

Among our recommendations were that EDA require the city to:

- ! Immediately deposit \$1,344,000 in excessive cash reserves in an interest-bearing account and remit the interest monthly to the U.S. Treasury.
- ! Remit the \$1,344,000 to the Treasury within six months if by then the funds are not being used to meet the RLF's purpose.
- ! Reimburse the RLF \$436,066 for unsupported administrative costs.

City officials disagreed with our conclusions and recommendations, but provided no information sufficient to cause us to change our views. EDA concurred with all of our recommendations and said that it will require the city to comply with them. (*Atlanta Regional Office of Audits: ATL-8371-6-0001*)

Defense Transition Grantee Violated Federal Regulations and Grant Terms

EDA awarded a technical assistance grant to a California nonprofit company to preserve and enhance the talent and technology base of the Silicon Valley area through defense transition activities. The \$2.8 million grant project, which consisted of \$2.1 million in federal funds and \$700,000 in local matching funds, was to run from July 1994 through June 1996. The recipient worked with three related nonprofit subgrantees and contracted with another company to assist in preparing the grant application and statement of work.

In reviewing program performance and financial aspects of the grant, the OIG found deficiencies in the following areas:

- ! **Job Tracking.** The recipient did not have information concerning jobs created and retained as a result of the grant. Without this information, EDA could not assess the grant's impact on Silicon Valley employment.
- ! **Procurement.** The recipient entered into a sole source contract with a management contractor despite a conflict of interest and lacked adequate justification for awarding a sole source contract to an independent auditor.
- ! **Timekeeping.** The recipient and its subgrantees used an allocation method to charge labor costs to the grant instead of using actual hours worked on grant-funded activities. In addition, the method used may have included costs for activities outside the scope of the award.
- ! **Indirect Costs.** The recipient allocated indirect costs to the grant using an allocation method that had not been approved by EDA, instead of directly charging the costs as authorized in the award.
- ! **Comparison of Expenses with Budgets.** The recipient was unable to compare outlays with budgeted amounts by major funding activity because it accumulated costs by type rather than activity.

We recommended actions to correct these deficiencies. We also recommended that EDA disallow \$138,428 in questioned costs and recover \$103,819 in federal disbursements related to the management contract, and not reimburse future costs under either contract resulting from the recipient's improper procurements. Implementing our recommendations should result in \$224,510 in funds put to better use.

The recipient disagreed with most of our findings and recommendations, but did not provide sufficient documentation to cause us to revise our recommendations. EDA agreed with most of our findings and some of our recommended actions. (*Seattle Regional Office of Audits: STL-8088-6-0001*)

Seminole Tribe Disaster Project Not Needed

To assist victims of recent natural disasters, the Congress enacted the Dire Emergency Supplemental Appropriations Act in September 1992. Of the \$70 million appropriated under the legislation, EDA used \$50.9 million to fund 30 Hurricane Andrew disaster relief projects in south Florida.

As part of this effort, EDA awarded a \$1 million grant in May 1993 to the Seminole Tribe of Florida, which was required to match the grant with \$356,000 of its own funds. The tribe qualified for the assistance because one of its reservations is located within the disaster area. The tribe requested the grant to assist its economic recovery from the hurricane, specifically, to construct or renovate an arts and crafts building, a living Indian village, and a plant nursery. The grant agreement called for the project to be completed within about 2½ years. At the time of our audit, the tribe had not claimed any costs under the award.

In its grant application, the tribe claimed that its tourist-related businesses suffered heavy economic losses from the hurricane's adverse impact on south Florida tourism. However, we found that:

- ! The need for assistance was unrelated to the hurricane, as the project components had been planned years earlier.
- ! The tribe failed to begin construction on the project until more than 2½ years after the award was made, although the grant was intended to meet urgent needs.
- ! The south Florida tourism industry had fully recovered from the hurricane's effects, thereby eliminating the grant justification.

By not diligently pursuing the project's completion, the tribe violated OMB Circular A-102 and EDA's terms and conditions for the award. Moreover, the grant project should not have been approved, and sufficient cause existed to terminate the grant after its award. However, since our audit, the tribe has begun project construction, and EDA has disbursed \$178,000 in grant funds. Under the circumstances, we determined that it would not now be in the government's best financial interest to terminate the award.

While agreeing with our conclusion that the project should not be terminated, the tribe took exception to some of our other findings and conclusions. We found nothing in the tribe's response to cause us to change any of the facts or conclusions presented in our report. (*Atlanta Regional Office of Audits: ATL-8585-6-0001*)

RLF Administrator Violated Grant Terms and Conditions

In 1984 EDA awarded a \$500,000 Title IX Long-Term Economic Deterioration Grant to a Midwestern city to enable it to establish a revolving loan fund to stimulate long-term private sector investment in the community. The grant required the city to provide a 25-percent matching share, bringing the total project cost to \$666,666. The EDA RLF is administered by a nonprofit corporation established to advance economic development in the city.

An OIG audit disclosed that the corporation violated the grant terms and conditions in several respects. Specifically, the corporation:

- ! Submitted financial reports to EDA that significantly understated the cash and fund balances of the RLF. This occurred because EDA funds were commingled with those of a locally funded RLF and financial records were inadequate. As of September 30, 1994, the RLF balance was understated by nearly \$300,000.
- ! Did not have records supporting RLF withdrawals for administrative costs. We reconstructed withdrawals applicable to the EDA grant, and added withdrawals exceeding grant limitations back into the EDA RLF fund balance. We concluded that EDA needed to seek \$83,270 for unsupported withdrawals within the past three years, in accordance with its policy requiring RLF grantees to maintain such administrative records for a three-year period. We noted that the corporation never maintained records to support the withdrawals.
- ! Maintained funds that exceeded the amounts allowed under the grant terms and administrative rules. For example, the RLF had an excess cash balance of \$220,969 as of September 30, 1994.
- ! Did not adequately document loan recipients' need for the loans. Several loan files did not contain evidence that the recipient had been turned down for a loan by financial institutions, and some recipients had substantial lines of credit with such institutions.

We made a series of recommendations to address these deficiencies. In its response to our draft report, the corporation agreed to comply with the requirements on excess cash and maintain proper documentation supporting the need for its loans. It disagreed, however, that its cash and fund balances were understated and that it needed records to support actual administrative costs. The corporation's response did not provide evidence sufficient to cause us to change our recommendations. (*Denver Regional Office of Audits: DEN-7908-6-0001*)

Regional Planning Commission Costs Questioned

In November 1993, EDA awarded a \$67,956 one-year grant to a Missouri regional planning commission to conduct an economic development planning and implementation program focused on mitigating the effects of flooding and other natural disasters. The grant did not require the recipient to provide a local matching share. The grant was later amended to provide a no-cost extension through February 1995.

An OIG audit disclosed that the recipient violated the grant terms and conditions when it charged EDA \$20,789 of questioned costs, including (1) personnel and fringe benefit costs that exceeded authorized limits, (2) preaward travel costs not provided for in the grant, and (3) unsupported indirect costs. In addition, the recipient disbursed \$7,591 in EDA funds for which it did not claim expenditures.

We recommended that EDA seek recovery of \$28,380, consisting of the questioned costs and the funds disbursed for non-program expenses. In commenting on the draft report, the recipient asked EDA to reconsider the audit recommendation, arguing that the project budget for salaries and fringe benefit costs was arbitrary, that questioning all indirect costs is not reasonable, and that although it had not claimed the \$7,591 in EDA funds, it used non-EDA funds to benefit the grant work scope. As the recipient was unable to provide justifications and documentation to support its arguments, we reaffirmed our findings and recommendation, with which EDA agreed. (*Denver Regional Office of Audits: DEN-8180-6-0001*)

New York State Offers \$13 Million to Replenish Revolving Loan Fund

In 1993 the OIG reported that the New York Job Development Authority, a state agency, had failed in its fiduciary responsibilities as trustee of an EDA revolving loan fund and wasted or abused substantial amounts of the RLF's capital (see September 1993 issue, page 18). As a result, the fund had been depleted by at least \$12 million and, unless corrective actions were taken, would needlessly lose another \$9.9 million over the ensuing years. Concurring with our findings and recommendations, EDA, among other things, required the Authority to cease certain improper activities and replenish the RLF with about \$12 million.

The state's corrective actions were delayed due to the financial collapse of the Authority, which has since been taken over by another state agency, the Empire State Development Corporation. In August 1996, Empire State notified EDA that the state legislature had authorized the corporation to replenish the RLF with \$13 million as a proposed settlement to the audit findings.

We reviewed the state's proposal and conducted an on-site review of the Authority's current operations. In summary, we partially concur with the proposal, in that we believe that EDA should accept the offer to reimburse \$13 million to the RLF. However, we also believe that EDA should require the Authority to contribute another \$1.2 million in-kind administrative costs over the next 12 years and comply with our audit report recommendations regarding reporting to EDA, developing a new RLF plan, and following agency administrative requirements. (*Atlanta Regional Office of Audits*)

Economics and Statistics Administration



Audits of ESA's and BEA's FY 1995 Financial Statements

The OIG contracted with an independent CPA firm to audit the FY 1995 financial statements of both the Economics and Statistics Administration and the Bureau of Economic Analysis. This is the second time the OIG has conducted or overseen the conduct of separate audits of ESA's and BEA's financial statements. The OIG audited ESA's and BEA's FY 1994 balance sheets, and expressed an unqualified opinion on each (see September 1995 issue, page 42).

The CPA firm has also issued an unqualified opinion on the FY 1995 financial statements of both agencies. However, the firm did note certain matters involving both ESA's and BEA's internal control structures and their operation that it considered to be reportable conditions, but not material weaknesses.

It should be noted that, in accordance with the Government Management and Reform Act, and by approval of the Office of Management and Budget, ESA and BEA did not present Statements of Cash Flows and Statements of Budgetary Resources and Actual Expenses for the year ended September 30, 1995. (*Financial Statements Contract Audit Division: FSD-8410-6-0001 and FSD-8411-6-0001*)

Data Capture System 2000 Needs Acquisition and Management Improvements

In previous decennial censuses, the Census Bureau used internally designed and developed technology for data capture—the process through which people or machines read and translate data from forms. The process converts the data obtained primarily from census questionnaires to an electronic format for further computer processing. Because the system used in 1990 is expensive, obsolete, and unsupportable, Census will acquire a modern system, called Data Capture System 2000 (DCS 2000), which uses electronic imaging.

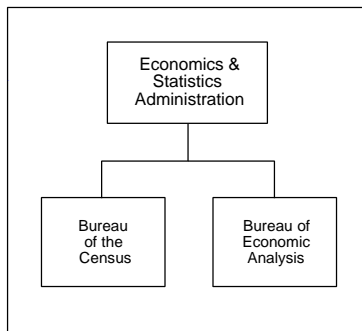
Census's decision to acquire a data capture system, rather than develop one, is an appropriate course of action that the OIG has recommended in the past. Census is seeking to maximize the use of commercial off-the-shelf components for DCS 2000, but the unique and stringent decennial census requirements necessitate customizing parts of the system. However, Census has limited experience in acquiring complex one-of-a-kind systems.

The **Economics and Statistics Administration** analyzes economic developments, develops policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal operating agencies:

Bureau of the Census. Census is a general-purpose statistical agency that collects, tabulates, and publishes a wide variety of statistical data about the people and the economy of the nation.

Bureau of Economic Analysis. BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts—summarized by the gross domestic product—and other accounts and measures of economic activity.

Economics and Statistics Administration



In an inspection to assess whether Census was using an efficient, effective approach to acquiring and managing DCS 2000, we concluded that:

- ! **A design fly-off would add risk.** Census had been planning to use a design fly-off—that is, select two contractors to design and test prototype DCS 2000 systems. Although this approach could help control production costs, there are not enough technical risks involved to make it appropriate. Moreover, a fly-off would be resource intensive, would severely limit communications with contractors, and could extend the schedule. Achieving system performance and meeting the schedule must be the primary goals because of the importance of having a well-functioning system for the 2000 census and the limited time available. These goals can best be achieved by working closely with one competent contractor.
- ! **Census needs a plan, an organization, and staff for managing DCS 2000.** With contract award previously planned for the fall of 1996 and now planned for early 1997, Census needs to develop a project plan and establish a project management organization. The staff should include personnel with demonstrated experience in managing the acquisition of complex one-of-a-kind systems, as well as personnel with in-depth knowledge of the DCS 2000 requirements and technology. The plan and organization should be in place before contract award.
- ! **The solicitation does not ensure that the best contractor will be selected.** Census plans to rely heavily on oral proposals and to minimize the written information required. It also plans to rely on offerors' past performance and not to obtain in-depth information on their technical approaches. In our judgment, the information to be elicited may not be adequate to ensure that the best contractor is chosen. Reliance on oral proposals and past performance may be sufficient for services contracts, but their use on systems development contracts is unproven. Census should revise its solicitation to require offerors to provide detailed written information about their proposed systems.

We made recommendations to correct the identified deficiencies. During our inspection, Census agreed with our first recommendation, deciding not to have a fly-off for the design phase. This action will result in funds to be put to better use of at least \$3 million. Census also agreed to implement our other recommendations. (*Office of Systems Evaluation: OSE-7329(2)*)

Audit of Census Bureau's FY 1995 Financial Statements

The OIG contracted with a CPA firm to perform an audit of the Census Bureau's FY 1995 Financial Statements. The firm issued a qualified opinion on the statement of financial position and disclaimed an opinion on the results of operations and changes in net position because of unaudited opening balances. In addition, material weaknesses were found in the Census Bureau's internal control structure. The following material weaknesses were cited.

- ! There are insufficient procedures to ensure that labor-related costs are charged to the proper projects or appropriations. Also, inadequacies in the process used to allocate Interfund costs, including the policy of not allocating losses to reimbursable projects, may lead to charges that are not consistent with Department accounting guidance.
- ! Census records did not provide an audit trail to reconcile amounts reflected in the statement of operations to balances recorded in the general ledger or subsidiary ledgers, and certain accounts payable amounts could not be verified because the supporting documentation was not maintained.

However, except for the effects of adjustments, if any, to the amounts recorded for accounts receivable, deferred revenue, accounts payable, and net position as a result of these material weaknesses, the firm was able to issue an opinion on the Census Bureau's statement of financial position. (*Financial Statements Contract Audit Division: FSD-7700-6-0001*)

Census-Related Legislative Proposals Being Considered by the Congress

Two pieces of proposed legislation related to the Census Bureau are being monitored by the OIG.

Sharing Confidential Data

OMB has proposed the Statistical Confidentiality Act, which would designate eight Statistical Data Centers, including two Commerce bureaus—Census and BEA. The OMB draft bill would enable these data centers to enter into bilateral agreements to share confidential data *for statistical purposes only*. A related Internal Revenue Service draft bill

would allow sharing of some IRS data among the data centers for more limited statistical purposes, but only with prior Treasury Department approval.

In a preliminary review of the proposed legislation, we concluded that it makes a great deal of sense. Consequently, we have decided not to proceed with a formal review at this time. We will continue to monitor the status of the legislation and the potential cost savings, as currently being explored by the General Accounting Office. Our major concern is that the Census Bureau continue to have legal protection over its data, in order to preserve its high reputation for data confidentiality and thereby obtain the highest possible response rates for its censuses. Among our other concerns are the sufficiency of data provided by IRS, the effectiveness of information security systems, the effectiveness of negotiated bilateral agreements, and the agencies' ability to honor pledges of confidentiality while sharing data.

Transferring the Agricultural Census

A second bill, the Census of Agriculture Act of 1996, which was passed by the House Agriculture Committee in June, would transfer authority to conduct the Agricultural Census from the Census Bureau to the Department of Agriculture's National Agriculture Statistics Service. Funding for the Agricultural Census, which is conducted every five years, has already been transferred from Commerce to Agriculture. (The Census Bureau will work for Agriculture on a reimbursable basis.)

In examining this legislation, we are concerned whether the Census Bureau will be able to obtain the data it needs for its other products after Agriculture assumes authority to determine the content of the Agricultural Census. Other concerns include whether parallel testing of Agriculture data collection systems will occur during the data collection and processing phase of the FY 1997 census, and whether the bureau is taking actions to minimize the cost of transferring the census. We will continue to monitor the transition plans for the transfer to determine any appropriate future role for the OIG in evaluating planning and implementation. (*Office of Inspections and Program Evaluations*)

Audit Reports Unresolved Over Six Months

As of September 30, 1996, there was one postaward contract audit report with recommendations unresolved for more than six months. In September 1993, the OIG issued a report (ATL-4349-3-0001) on its postaward audit of a \$4.8 million sole source contract awarded to The Advertising Council, Inc. (see September 1993 issue, page 33). Our audit found significant deficiencies in the contractor's procurement practices, particularly its routine failure to adequately seek competition when selecting subcontractors, vendors, and suppliers, and its failure to obtain written contractual agreements. We questioned \$2,508,364 in costs claimed against the contract.

The audit has been previously reported as unresolved over six months (most recently, in the March 1996 issue, page 32). During this semiannual period, representatives of the Council, OIG, and Census Bureau met to attempt to negotiate a final resolution of the questioned costs. Census officials are drafting final findings and determinations. The OIG will continue to work with the contracting officer to finalize the audit's resolution.



International Trade Administration

The **International Trade Administration** is responsible for most non-agricultural U.S. trade issues and works with the Office of the U.S. Trade Representative in coordinating U.S. trade policy. ITA has four principal units:

International Economic Policy. IEP develops and implements international economic policies of a bilateral, multi-lateral, or regional nature. It promotes trade, investment, and commercial relations, and maintains comprehensive commercial and economic data on countries and regions of the world.

Trade Development. TD advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.

Import Administration. IA defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States, and enforcing other trade laws and agreements negotiated to address such trade practices.

U.S. and Foreign Commercial Service. US&FCS promotes the exports of U.S. companies and helps small and medium-sized businesses market their goods and services abroad. It has offices in nearly 70 U.S. cities and at 129 overseas posts in 67 countries.

Audit of ITA FY 1995 Financial Statements

The OIG contracted with a CPA firm to audit ITA's Statement of Financial Position for FY 1995. The firm was unable to express an opinion on the statement because of limitations and material weaknesses in ITA's internal control structure. The audit cited the following material weaknesses:

- ! ITA did not maintain sufficient documentation to adequately support certain recorded balances and did not compile or record inventory balances.
- ! ITA did not have enough staff to establish effective management control over its operations.
- ! Financial systems were not fully integrated; source data was entered into off-line systems that were not reconciled to the official accounting system.
- ! Functions surrounding the recording, reconciling, and adjusting of financial data were not adequately segregated from functions relating to automated systems programming and security.
- ! Financial systems were inadequate to identify and record receivables, prepaid expenses, property and equipment, payables, accruals, and unearned revenues arising from foreign operations.
- ! Financial systems did not adequately track collections, expenditures, and excess receipts arising from the sales of goods and services to the public, so the related revenue and the deposit fund liability accounts may not be accurately recorded.

Until ITA improves its accounting and financial management systems to adequately address these material weaknesses, it cannot have reasonable assurance that amounts reported in financial statements are fairly stated.

The audit findings were further limited by the fact that the Department's Office of General Counsel was unable to provide, in time to be considered in the audit, information about ITA's involvement in pending or threatened litigation, or about claims or assessments, or unasserted claims or assessments, that might result in an unfavorable outcome for ITA.

Also, the CPA firm's *Report on Compliance with Laws and Regulations* reported instances of non-compliance for the year ended September 30, 1995. Specifically, in addition to not complying with the

Federal Managers' Financial Integrity Act requirements to establish internal administrative and accounting controls, as evidenced by the material weaknesses cited above, ITA:

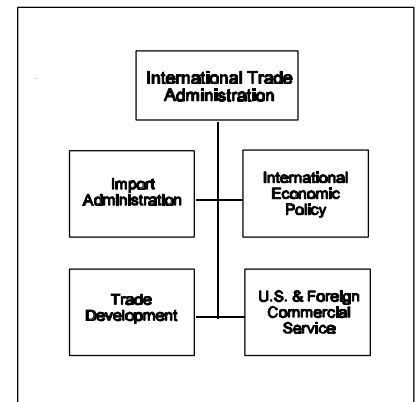
- ! Did not comply with OMB Circular A-127, *Financial Management Systems*, because it did not promptly correct deficiencies identified in internal control evaluations and did not have an integrated financial system.
- ! Did not fund and transfer to its trust fund an amount equal to the current accrual for voluntary Foreign Service National separation pay, as required by Public Law 102-138, Section 151.
- ! Did not prepare a complete and accurate accounting of all collections and expenditures relating to trade events, seminars, and information sale activities and, therefore, cannot guarantee full compliance with the provisions of the Economy Act.

It is critical that ITA address the need to obtain sufficient resources to operate, maintain, and improve its accounting system. Prior audit findings cited as a material weakness ITA's lack of sufficient human resources to establish effective financial management control over its operations and consolidate financial management responsibilities under a Chief Financial Officer. ITA has been studying this issue for some time.

In response to the FY 1995 financial statement audit, ITA has committed to establishing CFO and Deputy CFO positions; performing a detailed workload analysis covering the tasks, hours, and personnel required to implement the audit recommendations to improve its internal controls and accounting; and evaluating alternatives for improving the systems that process its overseas accounting and financial data. Accordingly, we accepted ITA's action plan for resolving the report's recommendations. (*Financial Statements Contract Audit Division: FSD-7701-6-0001*)

ITA's Administrative Activities Should Be Further Streamlined

ITA's centralized Office of Administration (OA) handles the administrative functions for all four of the agency's operating units: International Economic Policy, Import Administration, Trade Development, and the U.S. and Foreign Commercial Service (US&FCS). Of ITA's total FY 1995 budget of \$270 million, \$7.8 million went for administrative operations.



OA consists of four offices that provide financial management, personnel management, information resources management, and management support. In response to National Performance Review recommendations, OA has taken actions to eliminate waste, identify duplication, streamline operations, and enhance customer services. As a result, the office has been able to reduce staffing by several positions over the past two years. For example, the modernization of OA's Telecommunications Center resulted in more efficient equipment, which allowed reductions in staff and space requirements.

While we commend OA for the actions taken or planned to streamline its operations, we have identified additional areas where improvements are needed and economies can be achieved. For example:

- ! OA's Office of Financial Management needs to improve the accuracy and usefulness of its financial data so that ITA operating units can effectively manage their resources.
- ! OA's Office of Human Resources Management needs to coordinate with the Department's human resources office and US&FCS in consolidating personnel operations for staff located in the Commerce headquarters building.
- ! ITA needs to reevaluate its overall information resources management structure, which is fragmented, with decisions about the development of information systems being made independently by the operating units.
- ! ITA needs to reassess (1) resource requirements for the Telecommunications Center on the basis of workload reductions resulting from the center's modernization and (2) the need to operate the center 24 hours a day, 7 days a week.
- ! ITA needs to reassess the need to maintain its own staff of security specialists, whose activities mirror those of the Department's Office of Security.

We made a number of recommendations to address these issues and identified \$1,210,000 in funds that could be put to better use over two years if the recommendations were implemented. ITA generally agreed with our findings and recommendations, stating that it would continue to work closely with us to streamline its administrative operations. (*Trade and Information Division: TID-7325-6-0001*)

American Business Center Used Federal Funds for Unallowable Purposes

The OIG conducted an audit of a cooperative agreement awarded to a California firm to operate and manage an American Business Center in Minsk, Belarus (see September 1995 issue, page 48). The project objectives were to provide facilities and services to help U.S. firms export and invest in Belarus and to offer programs to help Belarussian firms gain a practical grasp of basic business skills and practices. The total project budget was about \$2.8 million, with a federal share of nearly \$1 million. In October 1995, the award was suspended because the recipient failed to address ITA's budget and program concerns.

An OIG audit covering the period from October 1994 to June 1995 confirmed that the recipient had seriously mismanaged the cooperative agreement. Specifically:

- ! Of total claimed costs of \$733,246, we questioned \$672,695—\$563,716 in claimed rent and lodging costs that either were used to acquire real property or were unsupported, \$99,279 in other costs for which we could find no supporting documentation or which did not appear allowable, and \$9,700 in personnel and fringe benefit costs that did not appear to be within the scope of work.
- ! The recipient had not complied with a special award condition that prohibits award funds from being used to pay for the acquisition of real property. Nearly three-quarters of the total costs claimed were used for this purpose.
- ! The recipient's financial management and related internal control systems did not fully comply with federal standards. As a result, the system did not provide adequate assurances that assets were safeguarded and that only reasonable, allowable, and allocable costs were claimed.

We recommended that the Department disallow the \$672,695 in questioned costs and recover the \$235,900 in funds disbursed in excess of allowable costs. We also recommended that the recipient be required to comply with the award condition that prohibits using award funds to acquire real property, and to bring its financial management system into compliance with federal standards in order to receive any future federal funding. If the recipient fails to implement these corrective actions, all undisbursed award funds should be deobligated and the award should be terminated for non-compliance.

The recipient failed to respond directly to our findings and recommendations. This failure, along with the fact that our audit was impaired by the recipient's inability to provide documentation for a number of transactions, demonstrates its general disregard for accountability for project funds.

The Department agreed with our findings and recommendations and advised the recipient that it owed the government \$235,900, in addition to proposing termination of the award by mutual consent. Subsequently, the Department terminated the award for cause because of the organization's non-compliance with the terms and conditions of the award and financial findings in the audit report and its failure to furnish evidence to dispute those findings. (*Administration and Development Division: ADD-7948-6-0001*)

OIG Official Testifies on Status of U.S. Export Assistance Centers

In July the Assistant Inspector General for Inspections and Program Evaluations testified before the House Small Business Subcommittee on Procurement, Exports, and Business Opportunities on the status of the U.S. Export Assistance Centers (EAC) Program and the efforts of its three participating federal agencies (Commerce's U.S. and Foreign Commercial Service, the Small Business Administration, and the Export-Import Bank) to create "one-stop shopping" for U.S. exporters.

The OIG had reported on its review of the program in the last semiannual period and made numerous recommendations to improve the effectiveness of the EACs and US&FCS's interagency leadership of the program (see March 1996 issue, page 33). The Assistant Inspector General testified that, since the completion of the review process, the OIG has been informally monitoring the program and has found moderate progress. For example:

- ! US&FCS has provided additional staff resources to strengthen the EACs, and SBA expects to fulfill its original staff commitments.
- ! A basic system has been implemented for identifying and reporting "joint" EAC programmatic accomplishments, although the three agencies still primarily pursue their parent agencies' goals and objectives.
- ! Improvements have been made in training programs, most notably in cross-team and trade finance training.

While some problems remain, the OIG believes that the Department can work with the other agencies to improve the program, and remains optimistic about the future of the EACs and their potential to address the export promotion and trade finance needs of U.S. exporters.

(Office of Inspections and Program Evaluations)

In Brief

Resignation. A foreign service national employed by US&FCS at an overseas embassy resigned after being told he would be fired for embezzling registration fees collected for a trade event. An OIG investigation found that the employee had taken about \$800 worth of local currency from the event fund, replaced the money some time later when the theft was discovered, and lied to his supervisor when questioned about the missing funds. *(Office of Investigations)*

Update. In our March 1996 issue (page 40), we reported the conviction of a former ITA secretary who had conspired with a coworker to obtain nearly \$2,500 in fraudulent travel reimbursements from an agency imprest fund. In June 1996, the former employee was sentenced to three years' probation and 200 hours of community service, and was ordered to make full restitution to the government. Her coworker subsequently entered a guilty plea to one count of theft of government property; sentencing has been scheduled for October 1996 in U.S. District Court for the District of Columbia.

(Washington Field Office of Investigations)

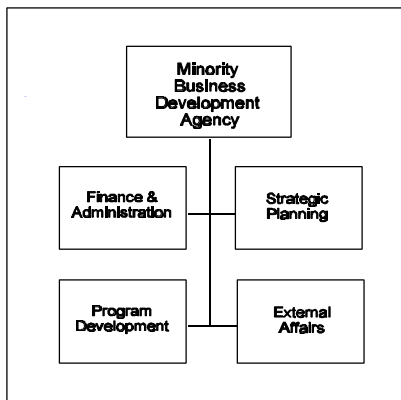


Minority Business Development Agency

The **Minority Business Development Agency** was created to help minority owned and operated businesses achieve effective and equal participation in the American free enterprise system and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

Audit of MBDA's FY 1995 Financial Statements

After auditing MBDA's FY 1995 statement of financial position, a contractor CPA firm was able to issue an unqualified opinion. The firm also reviewed MBDA's internal control structure and noted no matters involving the structure and its operation that they considered to be material weaknesses. In addition, the firm's tests of the agency's compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. (*Financial Statements Contract Audit Division: FSD-8130-6-0001*)



National Oceanic and Atmospheric Administration



Audit of NOAA's FY 1995 Consolidated Financial Statements

The OIG contracted with a CPA firm to audit NOAA's FY 1995 Consolidated Financial Statements. The firm was unable to issue an opinion on the statements because of 12 material weaknesses in NOAA's internal control structure. These material weaknesses involved NOAA's reporting structure; automated data processing systems; "on-top" adjustments; grants; property, plant, and equipment; capital and operating leases; loan portfolios; environmental liabilities; accounts payable and unliquidated obligations; fund balance with Treasury; contractor retainages; and deposit fund holdings. The nature and extent of the internal control deficiencies clearly indicate serious problems in NOAA's financial management.

Many of these material weaknesses result from NOAA's use of antiquated management information systems. Some can be corrected by allocating additional personnel resources, while others can be resolved only by replacing or significantly modifying existing systems.

We supported the inclusion of NOAA's financial reporting structure as a material weakness. Financial statements need to be presented so that NOAA management and oversight groups can understand them. When financial statements are presented in a manner that is inconsistent with the organizational structure, internal control deficiencies result. Managers of significant NOAA line organizations cannot understand the financial information presented and determine if it is presented correctly. The financial statements cannot be used for financial analysis purposes to help control business operations and support more effective management decisions. In addition, oversight groups cannot use the statements to provide required financial guidance. Therefore, the OIG agreed with the CPA firm that NOAA's financial statements need to be reported in a more meaningful way, that is, under a true program and activity structure.

Some of NOAA's material weaknesses and reportable conditions are so difficult to correct that it would take more than a year to implement the related audit recommendations. Further, NOAA advised that it does not have enough accountants and that without additional resources, it would not be possible to meet the Government Management Reform Act's March 1, 1997, reporting deadline for audited financial statements. We recommended that NOAA complete a detailed workload analysis covering the tasks, hours, and personnel required to implement the CPA firm's recommendations and meet the reporting deadline.

The National Oceanic and Atmospheric Administration studies climate and global change; ensures protection of coastal oceans and management of marine resources; provides weather services; and manages worldwide environmental data. It does this through the following organizations:

National Weather Service. NWS reports the weather of the United States and provides weather forecasts and warnings to the general public.

National Ocean Service. NOS issues nautical and aeronautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

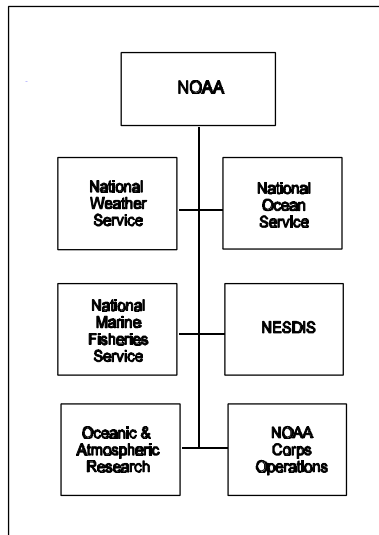
National Marine Fisheries Service. NMFS conducts a program of management, research, and services related to the protection and rational use of living marine resources.

National Environmental Satellite, Data, and Information Service. NESDIS observes the environment by operating a national satellite system.

Office of Oceanic and Atmospheric Research. OAR conducts research related to the oceans and inland waters, the lower and upper atmosphere, space environment, and the Earth.

Office of NOAA Corps Operations. The Corps is the nation's seventh uniformed service. Its ships, aircraft, and personnel support NOAA's activities throughout the world.

National Oceanic and Atmospheric Administration



NOAA concurred with all of the findings and recommendations in the audit report, except for the finding relating to the inconsistency between NOAA's financial reporting structure and its organizational structure. NOAA does not believe that this finding meets the definition of either a material weakness or a reportable condition. We disagree. Nevertheless, NOAA agreed to work with us, the Department, and the CPA firm to bring its financial reporting in line with its organizational structure. (*Financial Statements Contract Audit Division: FSD-7703-6-0001*).

OAR's Cost Recovery for Sponsored Research Needs Improvement

The Office of Oceanic and Atmospheric Research administers NOAA's program of fundamental research, technology development, and services to improve understanding of the Earth and its waters, the atmosphere, and space. OAR operates 12 environmental research laboratories across the country, which have a total annual budget of about \$135 million.

To further its research programs, OAR performs sponsored research for various international, federal, state, and local agencies, universities, and other private organizations. An OIG review, conducted to evaluate OAR's policies and procedures for accepting sponsored projects and for assigning and recovering actual costs, found serious deficiencies in the agency's management of its sponsored projects:

- ! **Full costs not recovered.** OAR labs are not recovering full costs for sponsored projects as required by statutory and administrative authorities. Only 1 of the 12 labs had implemented standardized labor distribution records to track actual labor costs. We estimate that, as a result, OAR did not recover \$27.9 million of labor and associated overhead costs for FYs 1993 and 1994.
- ! **Improper overhead charged.** Six OAR labs are inappropriately billing project sponsors for overhead using unsupported rates, and the rates improperly include expensing of capital asset purchases. Since the first rate was implemented in FY 1989, the labs have included \$9.1 million of such overhead charges in billings to sponsors. This practice results in an improper augmentation of NOAA's appropriation.
- ! **Expired funds expended.** Two OAR labs expended sponsors' funds beyond the expiration of the sponsors' appropriations. For FYs 1992-94, the labs improperly carried over and incorrectly

charged \$458,300 of one-year funding provided under two agreements with other federal agencies.

- ! **Agreements not properly prepared.** OAR managers were not preparing sponsored agreements in accordance with statutory requirements and departmental policies. The pervasive lack of citations of authority in agreements prevents the proper timing and disposition of receipts. Failure to properly handle the receipts could result in an improper augmentation of NOAA's appropriation or a violation of the Anti-Deficiency Act.

To correct these and other deficiencies, we made a number of recommendations to NOAA, including that procedures be developed to calculate and charge actual costs. We believe that by implementing this recommendation, OAR could put \$20.9 million to better use over the next two years. This amount is based on our estimate of \$27.9 million of direct labor and associated overhead costs lost in FYs 1993 and 1994, less the estimated \$7.0 million that will not be collected for FYs 1995 and 1996 by ceasing to charge improper overhead rates.

NOAA agreed with most of our recommendations; however, it did not concur with the findings, recommendations, or funds to be put to better use related to improper overhead rates. NOAA disagreed with our finding regarding the misuse of one-year funds, but agreed with the recommendation. NOAA also disagreed with our computation of funds to be put to better use for direct labor not recovered. We totally disagree with NOAA's views on these matters, and reaffirm our recommendations. (*Seattle Regional Office of Audits: STL-7658-6-0001*)

NWS Tsunami Warning Program Should Be Consolidated

The National Weather Service administers a Tsunami Warning Program to detect undersea earthquakes and alert Pacific coastal areas of potential tsunamis. Tsunamis are large ocean waves that occur mainly when undersea earthquakes cause a large section of the ocean floor to subside or be thrust upward. The program is operated from two Tsunami Warning Centers located in Hawaii and Alaska.

The OIG conducted a review to determine how effectively the program was providing tsunami warnings and whether it was operating efficiently and cost-effectively. We found that the program effectively provided tsunami warnings. However, we also concluded that the warning centers can be eliminated by transferring some duties to the

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Interior Department's U.S. Geological Survey, having some duties assumed by other NOAA offices, and leaving other duties to the states. Our review disclosed that:

- ! Warning center seismic detection activities duplicate the seismic detection mission of the Geological Survey's National Earthquake Information Center.
- ! Tsunami alert and water-level monitoring responsibilities can be performed by other NWS offices, such as Weather Service Forecast Offices, the National Severe Storms Forecast Center, or the Central Pacific Hurricane Center.
- ! Conducting tsunami education is not a primary mission of the warning centers and preempts regional NWS, state, and local responsibilities.

We recommended that NOAA:

- ! Eliminate seismic detection activities at the two warning centers and rely on seismic alerts from the National Earthquake Information Center.
- ! Reassign responsibility for issuing tsunami alerts and monitoring water-level gauges to other NWS offices.
- ! Restrict educational efforts to supporting state and local activities.
- ! Close the Hawaii and Alaska Tsunami Warning Centers, reassign or eliminate the staff, and excess the properties.

Implementing these recommendations would save the Department \$9 million: \$3 million in budgetary savings over two years, and \$6 million in one-time savings from disposing of excess federal property.

NOAA disagreed with our findings and recommendations. NOAA believes that the recommended actions would reduce program effectiveness and increase program costs. However, NOAA states that closing the centers would be acceptable if it includes transferring all tsunami warning responsibilities to the National Earthquake Information Center. NOAA did not provide us with sufficient rationale and supporting documentation for us to revise our recommendations. NOAA's response demonstrates a misunderstanding of our recommended actions, which are designed to fulfill program responsibilities while realizing savings from streamlined program operations. (*Seattle Regional Office of Audits: STL-7066-6-0001*)

Joint Study Supports Transferring Aeronautical Charting and Cartography Function to FAA

At the request of OMB, the Inspectors General from the Departments of Commerce and Transportation jointly reviewed the functions performed by NOAA's Office of Aeronautical Charting and Cartography (AC&C). The purpose of the review was to determine whether AC&C might operate more effectively and efficiently through a transfer to another government agency or to the private sector, or through additional program efficiencies.

AC&C prepares aeronautical charts and maps for the federal government and the public. Its largest customer is Transportation's Federal Aviation Administration (FAA). As part of its mission to ensure the safe and efficient use of the nation's airspace, FAA collects, validates, and disseminates aeronautical data for the publication of aeronautical charts and maps. AC&C uses this information to create its charts and other products.

We analyzed several operational and organizational options to determine the best location for the charting function—including leaving it at NOAA; moving it to the Defense Mapping Agency, the Geological Survey, or FAA; or allowing the private sector to perform a greater role. We concluded that AC&C fits best into and should be transferred to FAA, with which it is closely associated through funding, aviation safety mission, and program direction. Our review also identified opportunities for cost savings and improvements in the efficiency of the aeronautical charting program, including consolidating AC&C's printing operation with that of the Geological Survey, outsourcing some printing functions, and collocating the remaining AC&C functions with FAA's Office of Aeronautical Information Services.

To improve AC&C's efficiency and enhance air safety, several funding and pricing issues must be resolved prior to a transfer to FAA. With regard to pricing, current legislation unnecessarily restricts AC&C's ability to develop, print, and distribute new products for improving air safety. As for funding, FAA in the past resisted accepting the aeronautical charting program from NOAA due to the perceived risk that full funding and adequate staffing would not transfer with the responsibility for the function. Furthermore, NOAA and the Defense Mapping Agency need to resolve the latter's payment to support the aeronautical information database.

We recommended that the Director of OMB, in consultation with the affected agencies and appropriate congressional committees, take the actions needed to transfer the aeronautical charting function to FAA. We also made recommendations to improve AC&C's operating efficiency.

In response to our draft report, NOAA concurred with almost all of our recommendations. It did not, however, concur with the recommendation to transfer AC&C's printing operation to the Geological Survey, proposing instead to physically relocate AC&C's printing operation to the Survey, but allow AC&C to retain management control of the operation. We disagree with NOAA's position, believing that it would not promote efficient operations.

FAA, on the other hand, disagreed with our recommendation to transfer AC&C. The agency believes that a performance-based organization (PBO) is a better alternative that needs to be studied further. FAA also stated that the report should have taken into account the findings of a recent study by the National Academy of Public Administration that recommended the creation of a PBO for NOAA's nautical charting and geodesy programs in the Department of Transportation. Finally, FAA also stated that through the extensive study of this function over the past two years, FAA has identified financial and personnel risks associated with transferring AC&C to FAA.

Our final report addressed FAA's concerns but also affirmed our original recommendations. First, regarding FAA's disagreement with our primary recommendation, we do not disagree with the possible creation of a PBO; however, a PBO must still be part of a government agency, and for the reasons discussed in our report, that agency should be FAA. Second, we did not factor the conclusions of the National Academy of Public Administration study into our review because we determined that NOAA's nautical charting and geodesy programs had little connection with AC&C. Finally, although we agree that the transfer involves risks, we believe that providing for a permanent transfer of funds and relief from personnel ceilings would mitigate those risks. (*Office of Inspections and Program Evaluations: IPE-8646*)

NOAA Should Pursue All Ship Service Options for its Antarctic Research

In conjunction with a recent program evaluation of NOAA's fleet (see March 1996 issue, page 43), the OIG began an evaluation of NOAA's outsourcing efforts for ship services to support its Antarctic Marine Living Resources (AMLR) program. NOAA had cited its experience with the AMLR charter as an example of the difficulties it faces in finding suitable vessels to support its research needs. In response to a congressional inquiry, we expanded our review to evaluate whether NOAA adequately considered all of its options for obtaining the ship services needed for its Antarctic research.

Under the 1984 Convention for the Conservation of Antarctic Marine Living Resources Treaty, Commerce is responsible for designing and conducting the U.S. program of scientific research in the Antarctic. The goal of the program, which is directed by NOAA's National Marine Fisheries Service, is to ensure that the marine living resources of the southern oceans are not overharvested and stocks are not depleted.

In the past, Antarctic research vessel needs were met by the aging NOAA ship *Surveyor*, which was removed from service in October 1995. Having no other vessels in its fleet suited for Antarctic conditions, NOAA decided to charter a vessel to meet its needs. Although 40 copies of the solicitation for bids were sent out, only two bid proposals were received, one of which was technically unacceptable. The contract, valued at an estimated \$1.7 million for the first year and \$2.8 million for the second (option) year, was therefore awarded to the other bidder—a Russian firm.

During our evaluation, we observed that:

- ! **NOAA did not consider all available alternatives for vessel support in the Antarctic.** Although NOAA used an open source selection process for procuring contract ship services from the Russian fishing vessel, there were other alternatives to consider before soliciting bids from the private sector. Among these alternatives were vessels from within the federal fleet, such as those of the University-National Laboratory System and the National Science Foundation. We recommended that NOAA explore all its options with the federal fleet and the private sector before settling on one.

- ! **NOAA's decision to limit the charter period to one year reduced private sector interest in the procurement.** According to the AMLR contracting officer, the main reason for the lack of response to the solicitation was the short term of the contract. Uncertainties about future funding of the program, cited as a primary reason for using a one-year contract, could have been addressed by making the optional years contingent upon sufficient appropriations. We recommended that when contracting with the private sector, NOAA use its multi-year contracting authority for long-term programs.
- ! **Funds from decommissioned ships should be reallocated to programs to obtain replacement services.** For FY 1997, responsibility for the AMLR charter contract has been transferred from the Office of NOAA Corps Operations to NMFS, but about \$5 million of the \$7 million historical funding of the *Surveyor* has been retained in the marine services budget, controlled by the NOAA Corps office, rather than the program offices. NMFS has come up with \$2.4 million for the charter, but is still \$400,000 short of the amount needed to conduct its full AMLR research in 1997. We recommended that NOAA (1) as a general practice, reallocate the full historical cost of decommissioned NOAA ships to the programs responsible for hiring replacement vessel services, and (2) in this case, reallocate at least the needed \$400,000 from the marine services line in the FY 1997 budget to enable NMFS to proceed with the full option specified in year two of the AMLR contract.

In response to our draft report, NOAA disagreed that it had not considered all available alternatives for Antarctic vessel support, noting that the solicitation was widely published. We continue to believe that NOAA failed to consider other options, such as the federal fleet. NOAA also disagreed that the decision to limit the charter period to one year reduced private sector interest, pointing out the uncertainty of the program's future and the fact that the contract had three annual renewal options. We believe that NOAA should make a decision about the program's future, then work to increase private sector interest in the charter and achieve cost savings by using a multi-year contract. Finally, although NOAA agreed that funds from decommissioned ships should be allocated to obtain replacement services, it has *not* complied with our recommendations concerning this issue. (*Office of Inspections and Program Evaluations: IPE-8865*)

Financial Management and Compliance Weaknesses in Interagency Agreements with EPA

Under a series of transfer of funds agreements with the Environmental Protection Agency (EPA), NOAA performed work using funds appropriated from the Hazardous Substance Response Trust Fund, commonly known as the Superfund. NOAA's work involved providing technical assistance and research on the risks to coastal resources and ecosystems from hazardous waste sites and spills.

The Superfund Amendment and Reauthorization Act of 1986 requires the Inspector General to conduct audits of all payments, obligations, reimbursements, and other uses of the Superfund. We reviewed interagency agreements for FYs 1993 and 1994 to determine whether the costs were properly incurred and identified.

Our audit disclosed deficiencies in NOAA's financial management and compliance with the agreements' special terms and conditions.

- ! **Financial Management.** NOAA did not establish adequate internal control procedures to ensure that costs under the interagency agreements were recorded properly, obligated more costs than the amount of the funds received from EPA in one interagency agreement, and did not adequately support some claimed obligations.
- ! **Compliance.** NOAA did not record all equipment purchased with EPA funds in the Department's property book, perform adequate property inventories, or prepare reports showing the minority-owned businesses contracted to work under the agreements or efforts taken to encourage the use of such businesses.

As a result of these deficiencies, NOAA does not have adequate assurances that recorded costs are accurate and reliable or that assets are adequately controlled.

We made several recommendations to correct these deficiencies. NOAA agreed with our findings and recommendations related to compliance, but not those related to financial management. We found NOAA's comments insufficiently persuasive to refute our findings and recommendations. (*Seattle Regional Office of Audits: STL-8450-6-0001*)

State Agency Mismanaged and Overcharged Cooperative Agreements

During the period from 1991 to 1995, NOAA awarded a Southern state agency five annual cooperative agreements totaling about \$4.9 million. The agreements were for conducting and managing an environmental and resource study of a major harbor in the state.

An OIG audit determined that the state agency's late and incomplete assistance applications have delayed NOAA's annual funding of the project, requiring NOAA to approve no-cost extensions of each performance period. These extensions have led to (1) an expected 15-month project completion delay and \$250,000 in added administrative costs, (2) overlapping funding awards that caused the state agency to charge almost \$400,000 in personnel costs to the wrong agreements, and (3) numerous contract extensions that may have masked other agency contract administration problems.

We recommended that NOAA designate the state agency as a "high-risk" organization and make no new awards or additional disbursements under current awards until the agency:

- ! Begins maintaining proper time and attendance records.
- ! Stops paying contractors who are not performing satisfactorily.
- ! Repays the federal government for about \$205,000 in over-charges to the five cooperative agreements.
- ! Completes the project at no additional cost to NOAA.

The state agency did not agree with our draft report's findings regarding the project's personnel cost accounting and contract administration, arguing that the agency had complied with NOAA directives concerning the project's unique missions and problems. Therefore, it believes that the questioned costs should be allowed. We agreed that funding delays were the major cause of the problems disclosed in the draft report. However, as the delays were caused by the agency's late and incomplete funding applications, we believe the agency should pay for most of the project's added administrative costs. (*Atlanta Regional Office of Audits: ATL-7863-6-0001*)

NOAA Should Not Pay Management Fee to a Nonprofit Organization

Last year the nonprofit University Corporation for Atmospheric Research (UCAR) requested to be paid a management fee under its financial assistance awards with NOAA. We objected to such a fee because most of UCAR's claimed need for the fee appeared to be for indirect costs, which should be recoverable through its indirect cost rate. The balance appeared to encompass unallowable costs that would not benefit NOAA's awards. Moreover, how awardees spend management fees is not subject to audit.

As UCAR's cognizant agency, the National Science Foundation (NSF) is responsible for negotiating its indirect cost rate. We advised NSF's Office of Inspector General of UCAR's practice of charging management fees to federal agencies. In April 1996, NSF's OIG concluded that UCAR already receives federal funds to cover the indirect costs of its research and uses the fees to cover costs that are unallowable under federal cost principles. As a result, NSF's OIG suggested that we recommend that NOAA refuse to pay UCAR a management fee on direct awards and awards that pass through NSF via interagency fund transfers. Alternatively, it suggested that NOAA set a cap on the fees equal to the percentage that NSF pays. Based on \$4 million of estimated FY 1996 NOAA funding, this would limit fees to \$6,000, or 0.142 percent.

In July 1996, after considering our objections and the NSF OIG's concerns, NOAA nonetheless decided that paying a 3-percent management fee to UCAR was in the agency's best interests and necessary to continue its program objectives. NOAA said that it wanted to continue to strongly support its unique partnership with UCAR that provided advanced scientific research capabilities, facilities, and educational resources to the federal government and the academic research community.

We continue to believe that a management fee paid to a nonprofit organization that is essentially used to cover unallowable costs is inappropriate. UCAR already receives most of its funding from the federal government, including a small fee from NSF. In a tight budget environment, it makes no sense to provide additional funds for organizational overhead, rather than for direct research costs. By not paying management fees to UCAR, it is estimated that NOAA can save over \$180,000 annually and the federal government as a whole nearly \$1 million. (*Office of Audits*)

Regional Manager Removed for Misconduct

The special agent in charge of an NMFS regional enforcement office was removed from federal service and his deputy relieved of his supervisory position after an OIG investigation confirmed complaints of serious misconduct and mismanagement in the office. Both agents had contributed to the creation of a hostile working environment by engaging in threatening behavior and by making unwelcome and inappropriate remarks to subordinates. In addition, the special agent in charge had reported to duty while intoxicated, used a government vehicle for non-official purposes, and taken unauthorized and unrecorded absences from work. (*Silver Spring Field Office of Investigations*)

In Brief

Suspension. An NMFS employee received a 14-day suspension for misusing government time and equipment by working on tax files for private clients using software he had installed on his government computer. An OIG investigation also revealed that the employee had abused time and attendance rules when he took administrative leave for jury duty, although he had actually been placed in an on-call status and could have reported to work. He was compelled to substitute three days of annual leave for the administrative leave originally granted. (*Denver Field Office of Investigations*)

Audit Reports Unresolved Over Six Months

As of September 30, 1996, one performance audit report, two financial assistance audit reports, and seven preaward contract audit reports had recommendations unresolved for more than six months.

NWS Headquarters and Support Operations Staffing

The performance audit report, *National Weather Service Should Streamline Its Headquarters and Support Operations*, NOA 6979-6-0001 (see March 1996 issue, page 48), identified 258 NWS positions that appeared to be good candidates for elimination and 187 in other areas that could be outsourced, restructured, or eliminated.

NOAA agreed with our recommendation that NWS should develop and implement plans for streamlining headquarters functions. However, NOAA disagreed with both the OIG position to eliminate 445 positions over the next two years and the resulting savings. Until NWS provides a formal

streamlining plan, the OIG will be unable to assess whether the agency's proposed reductions address the depth of the suggested cuts.

Oregon Research Organization

The first financial assistance audit report, STL-4569-5-0001 (see March 1995 issue, page 40), involved an organization that had received a series of NOAA awards totaling over \$8.5 million. Our audit disclosed serious deficiencies in the management of the grant funds, and recommended that NOAA disallow more than \$750,000 in questioned costs and recover about \$675,000 of disbursed funds. We also recommended that NOAA withhold further payments until the grantee demonstrates that it is in full compliance with federal lobbying restrictions. This audit report had previously been reported as unresolved over six months (see September 1995 issue, page 66; March 1996 issue, page 53).

NOAA and the OIG have not been able to come to satisfactory resolution regarding \$750,000 in questioned costs related to pervasive lobbying activities. In order to resolve the open issues, NOAA developed a revised audit action proposal, which the OIG is currently reviewing.

University of Hawaii

The second financial assistance audit report, ATL-9999-5-0753 (see September 1995 issue, page 99), was an OMB Circular A-133 audit that questioned \$1.1 million of the grantee's claimed costs. NOAA requested that resolution be deferred until a final determination of the allowability of costs has been made by the Defense Contract Audit Agency and negotiations regarding ship day rates and other costs for specialized service research have been completed by the Office of Naval Research, the cognizant agency for the university in resolving issues identified in the A-133 audit. NOAA anticipates that these agencies will take action in the near future.

Preaward Contract Audit Reports

The seven NOAA preaward contract audit reports are discussed on page 77.



National Telecommunications and Information Administration

**The mission of the National
Telecommunications and
Information Administration is**

(a) to serve through the Secretary of Commerce as the principal executive branch advisor to the President on domestic and international communications and information policies, (b) to ensure effective and efficient federal use of the electro-magnetic spectrum, (c) to develop with other federal agencies policies for international communications and standards-setting organizations, (d) to serve as the federal telecommunications research and engineering center, and (e) to administer grants under the Information Infrastructure Grants Program, the Public Telecommunications Facilities Program, and the National Endowment for Children's Educational Television.

Audits of Information Superhighway Program Show Need for Greater Oversight

NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP) provides matching grants to nonprofit organizations to fund projects that use the "information superhighway" to improve the quality of, and the public's access to, education, health care, and government services. Since the inception of TIIAP in 1994, NTIA has awarded 277 grants in all 50 states, the District of Columbia, and the Virgin Islands. The awards total \$78.6 million and have been matched by \$131 million in non-federal funds.

We have undertaken several audits to evaluate the performance of grantees and the quality of NTIA's management of this new program. We are conducting financial audits of selected grant recipients to determine whether Commerce funds were properly spent. The results of our first two financial audits are reported in the following sections.

Our management audit evaluated NTIA's process for monitoring the grants and taking action when problems arise. We have completed our field work and are preparing our report. During our field work, we found that NTIA program officers rarely visited grantees, made only perfunctory reviews of grantee status reports, took no action even when significant problems were identified, improperly approved grant revisions, and did not ensure that grantees were aware of federal grant requirements.

NTIA officials have been responsive to the concerns we raised. They have taken a number of actions to improve their management of TIIAP, including more frequent telephone discussions of progress with grantees, a commitment to systematic follow-up on potential and actual problems, and the completion of selected on-site visits by program monitors. These actions need to be expanded, and NTIA must provide the resources to adequately manage and evaluate the program.

Grantee Failed to Meet Project Objectives and Matching Requirements

In 1994 a Washington, D.C., area nonprofit organization that provides public and social services was awarded a \$675,000 NTIA grant that required a match of the same amount, bringing the total project budget to \$1,350,000. The purpose of the grant was to develop and demonstrate unique computer software for a telecommunications network that would integrate a wide range of employment training, health, and human services.

National Telecommunications and Information Administration

After more than a year, and after spending more than half of the grant funds, the organization still did not have the software needed to operate the telecommunications network demonstration project. Furthermore, we questioned \$407,000 of the \$530,000 in in-kind contributions claimed by the organization. Based on preliminary audit information that indicated the lack of support for the claimed match, the Department suspended the grant until this audit was completed.

We recommended that NTIA:

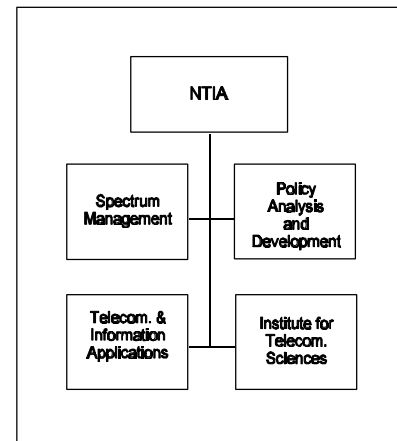
- ! Decide within 30 days of final report issuance whether the project can be salvaged and made feasible at no additional cost to the government.
- ! Continue the suspension of payments or reimbursements to the organization until it can adequately document its claimed in-kind contributions.
- ! Amend the grant's special terms and conditions to include certain requirements to protect the government's interest.
- ! Disallow \$471,818 in questioned costs and recover \$165,973 in excess grant disbursements.

The organization disagreed with our findings about the lack of software development, the unsupported in-kind claims, and the questioned costs. We considered the points raised in the response and found no basis for modifying our findings and recommendations. (*Atlanta Regional Office of Audits: AT-8636-6-0001*)

State Agency Cannot Verify Over \$600,000 in Matching Funds

In 1994 an agency of a southern state was awarded a \$660,000 NTIA grant that required about \$1,333,000 in matching funds, for a total project budget of \$1,993,000. The grant was part of a larger telecommunications project, started in 1993, to install a computer network linking the state's public health headquarters with its 19 district offices and 159 county health departments.

An OIG audit disclosed that the state's records were inadequate to verify about \$639,000 of its \$831,000 in claimed matching costs. Also, the state was not inventorying equipment contributed to the project for its in-kind grant match in state accounting records.



National Telecommunications and Information Administration

We recommended that the Department:

- ! Suspend payments or reimbursements until the state's auditor certifies that the state can verify the value of its claimed in-kind contributions and that it has inventoried the equipment contributed to the project for the in-kind match.
- ! Disallow about \$639,000 in questioned costs and recover about \$74,000 in excess grant disbursements.

State officials disagreed with our findings and recommendations, but did not provide sufficient information to cause us to change them.
(Atlanta Regional Office of Audits: ATL-8637-6-0001)

Patent and Trademark Office



OIG Comments on Legislation to Establish PTO as a Government Corporation

During this semiannual period, the OIG provided recommendations to the Department and the Congress for changes to legislation introduced in the House and Senate that would establish PTO as a wholly owned government corporation.

We concur with the administration's position that government corporations should be under the supervision of an existing federal department or agency. Accordingly, if PTO becomes a corporation, it should remain under Department of Commerce supervision. Consistent with this position, we recommended that the Commerce Inspector General serve as the IG for the new government corporation.

The current legislative proposals suggest that although the corporation would remain an agency of the United States and receive policy guidance from the Secretary of Commerce, it would be largely exempt from departmental supervision. Further, the proposals indicate that the corporation's IG would be appointed by the head of the corporation.

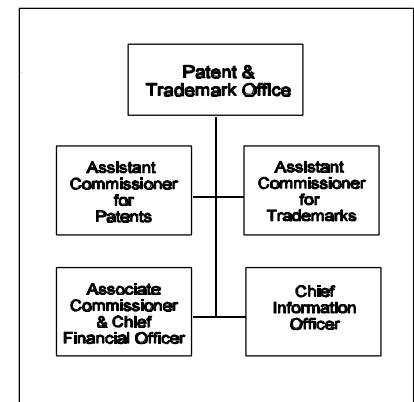
We also offered recommendations for amending the provisions for audits of the proposed corporation's financial statements to make them consistent with the IG, CFO, and Government Corporation Acts.

We will continue to monitor the progress of the legislation in the 105th Congress.

In Brief

Conviction and Sentencing. A PTO employee was convicted of theft of government property after an OIG investigation disclosed that she had charged nearly \$4,000 in personal purchases to a government credit card, cashed travelers' checks issued to another PTO employee, and provided false certifications to conceal her fraudulent acts. In September 1996, the former employee was sentenced to 15 days' imprisonment, four months' monitored home detention, and three years' probation, and was ordered to make full restitution of the government's loss. (*Washington Field Office of Investigations*)

The **Patent and Trademark Office** administers the nation's patent and trademark laws. Patents are granted, and trademarks registered, under a system intended to provide incentives to invent, to invest in research, to commercialize new technology, and to draw attention to inventions that would otherwise go unnoticed. PTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.



The **Technology Administration** serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies by industry. It includes three major organizations:

Office of Technology Policy. OTP works to raise national awareness of the competitive challenge, promotes industry/government/university partnerships, fosters quick commercialization of federal research results, promotes dedication to quality, increases industry's access to and participation in foreign research and development, and encourages the adoption of global standards.

National Institute of Standards and Technology. NIST aids U.S. industry through research and services, contributes to public health and safety, and supports the U.S. scientific and engineering research communities. It creates and maintains national standards of measurement and is developing computer security standards for the federal government.

National Technical Information Service. NTIS is a self-supporting agency that actively collects and organizes technical, engineering, and business-related information generated by U.S. and foreign governments and makes it available for commercial use by the private sector.

Comprehensive Review of NIST's Capital Improvements Facilities Program

In 1991 the National Institute of Standards and Technology initiated its Capital Improvements Facilities Program (CIFP), a 10-year, \$540 million plan to upgrade its laboratory facilities in Boulder, Colorado, and Gaithersburg, Maryland. The plan calls for a mix of new construction and renovations of existing buildings. Concerned with the budgetary and programmatic impact of the CIFP, the OIG began a comprehensive four-part review of the plan. The work covered in the first part of the review, completed during the prior semiannual period, concluded that consolidating NIST's two-site operation in Gaithersburg is not feasible and that construction plans for an advanced technology laboratory in Boulder should be halted (see March 1996 issue, page 59).

Leased Space in Gaithersburg No Longer Justified

In the second part of the review, we analyzed the procurement of leased office space in Gaithersburg that was primarily intended to provide "swing space" to allow existing laboratory and related space to be vacated and renovated. Our review disclosed the following:

- ! NIST did not adequately assess the impact of major changes to its original plans on its need for leased space. Its decisions to construct a new chemistry laboratory building in Gaithersburg and delay most major renovations until at least 1999 have eliminated the need for leased space to support the CIFP. As a result, NIST unnecessarily committed itself to a 10- to 15-year lease that may cost from \$31 million to \$47 million. Alternative justifications offered by NIST are inadequate to support continued occupancy of most of the leased building.
- ! The space, while being paid for with CIFP funds, is being used by NIST to free up space for the expansion of its laboratory operations. While we acknowledge that NIST has some overcrowding in its office space in Gaithersburg, we maintain that it can justify only about one-third of the space leased and should vacate and sublease the remaining portion immediately.
- ! NIST did not follow established approval procedures for the leasing of space. The Department is responsible for approving leases of more than \$500,000 per year to be procured by Commerce agencies. If established procedures had been followed and the Department had been properly informed about significant

changes to the original CIFP, the lease procurement might have been dramatically altered in scope or avoided entirely.

We made recommendations to both NIST and the Department to ensure that (1) surplus space in the leased building is eliminated expeditiously, both now and in light of future budget and personnel allocations, (2) the remaining portion of the leased space is charged to NIST's general operating funds, and (3) effective departmental oversight is established for this and any future leasing procurements conducted by NIST or other Commerce agencies under independent leasing authority. We believe that by implementing these recommendations, the Department could save up to \$16.3 million over 10 years.

NIST disagreed with our finding that it did not act in the government's best interests by continuing its procurement and occupancy of leased space. NIST acknowledged that the CIFP plan had changed during and since the procurement, but reiterated its need for additional space to provide swing space for other construction and renovation projects. The Department also stated that NIST requires the space to relieve a severe lack of office space. We agreed that NIST has a small office overcrowding problem, but, on this basis, we believe it can justify only about one-third of the currently leased space.

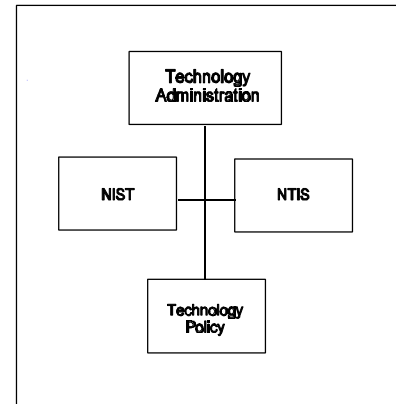
Since we issued our report, NIST has agreed to pay for the leased building from its general operating funds, rather than from CIFP funds. The Department has (1) hired a contractor to study the overcrowding issue and (2) provided a draft document describing the controls it will put in place to better monitor bureaus' activities on major real estate projects. The OIG is reviewing both the study and draft policy and expects to reply to the Department later this year. (*Office of Inspections and Program Evaluations: IPE-8377(1)*)

\$32 Million in CIFP Funds Improperly Obligated

In the third part of the review, we analyzed the validity of a large portion of NIST's FY 1995 CIFP obligations—in particular, \$51.6 million in obligations for architecture and engineering services and for construction management.

Our review disclosed that \$31.8 million of these funds had been inappropriately obligated. By obligating funds in excess of the amounts allowable under its contracts at the time, NIST violated federal regulations governing the obligation of appropriated funds. NIST officials could not provide adequate justifications for the obligations.

Moreover, at the time of the obligations, the Congress was scrutinizing NIST's carryover funds to identify moneys available for



rescission. Knowledge of the improper obligations could have affected congressional decisions concerning future funding of NIST's construction program. We believe that even the *appearance* of improper obligations places NIST's construction program and future appropriations at risk and raises concerns about the adequacy of the CIFP management process.

We recommended that TA take the necessary actions to:

- ! Immediately deobligate \$23.7 million of the improper obligations and inform the Congress of the deobligation. (Since the improper obligations occurred, NIST appears to have properly obligated \$8.1 million of the \$31.8 million we identified.) These funds should not be obligated for other purposes without prior congressional approval.
- ! Ensure that NIST does not attempt to obligate CIFP funds in excess of legal limits. CIFP management and procurement personnel should be reminded, through appropriate training, of the rules and regulations regarding obligations.

In response to our recommendations, NIST agreed with our primary observation and recommendation that the funds in question be treated as unobligated funds. NIST also agreed that the obligation of funds for this (or any) program should be above reproach, and not give the appearance that funds are being improperly obligated to avoid potential rescission. (*Office of Inspections and Program Evaluations: IPE-8377(2)*)

Questions Remain About Omnibus Construction Contract and Overall Management of the CIFP

The fourth part of our review, which is looking at NIST's overall management of its CIFP construction program, will not be completed until the next semiannual period. During this review, our examination of a solicitation in process raised concerns about a lack of competition for the pending omnibus construction contract award. The Inspector General expressed these concerns to the Under Secretary for Technology in a September 17 memorandum.

Specifically, although the solicitation for the contract allowed multiple awards for NIST construction contracts, we were concerned that the CIFP construction effort might be issued to only one source for both the initial requirements and future, as yet undefined, actions. NIST officials contended that even if there was a sole-source award on the contract, competition requirements would be satisfied by requiring the prime contractor to award subcontracts competitively. In our view, however, this approach will not lead to meaningful competition.

We found it troubling that greater competition was not being introduced in the CIFP project. Enabling a single contractor to lock in as much as \$480 million in NIST construction projects spanning up to 10 years would be unwise and would raise construction costs and undermine the Department's management controls over the projects.

We recommended that NIST modify the CIFP solicitation to guarantee (1) individual awards for those construction projects that are fully defined and properly funded and (2) the competitive award of individual task orders under an omnibus contract in accordance with the Federal Acquisition Streamlining Act of 1994. Because the technical proposals were being scored at the time of the Inspector General's memorandum, NIST needed to act on this recommendation quickly or solicit another round of proposals from the offerors. We requested that no award be made until we had been fully briefed on any proposed award and had an opportunity to ensure that our concerns and recommendations have been addressed. (*Office of Inspections and Program Evaluations*)

Audit of NIST's FY 1995 Combined Financial Statements

The CPA firm with which we contracted to audit NIST's FY 1995 Combined Financial Statements issued an unqualified opinion on the statements. The firm's review of NIST's internal control structure disclosed no *new* matters involving the structure and its operation that were considered to be material weaknesses. However, the firm did note five weaknesses identified during the previous two audits of NIST's Financial Statements (see September 1994 issue, page 57, and March 1995 issue, page 51) that remain unresolved and again recommended appropriate actions to correct these deficiencies. To its credit, the agency has addressed five other weaknesses cited in the previous two audits.

We commend NIST on its efforts to correct past material weaknesses. We encourage it to address all remaining weaknesses in its internal control structure. (*Financial Statements Contract Audit Division: FSD-7699-6-0001*)

Accounting System Surveys of NIST Awardees Promote Early Resolution of Audit Issues

As noted in earlier issues of this report, the OIG has been performing a series of accounting system surveys of first-time recipients of cooperative agreements awarded under NIST's Manufacturing Extension Partnership and Advanced Technology programs (see March 1995 issue, page 51; September 1995 issue, pages 10 and 72; March 1996 issue, page 64). Rather than wait to undertake comprehensive audits covering several years, we conduct brief surveys to make preliminary assessments of whether selected recipients are (1) claiming costs that are reasonable, allowable, and allocable, and (2) complying with the financial terms and conditions of their awards.

Manufacturing Extension Partnership Program

The 10 surveys reported on during this semiannual period covered projects having total estimated costs for the two- to three-year award periods exceeding \$63 million, with a federal share that could ultimately be as much as \$31 million. Seven of the surveys identified weaknesses in the recipients' financial management and accounting systems, most commonly the failure to supply or document matching share funds, to properly claim and document only allowable costs, and to implement adequate administrative policies and procedures.

Almost without exception, the recipients concurred with our findings and agreed to take prompt corrective actions. Identifying these weaknesses early in the award periods will help prevent future problems and avoid questioned costs in later audits. (*Denver Regional Office of Audits: DEN-8446-6-0001, DEN-8447-6-0001, DEN-8449-6-0001, DEN-8515-6-0001, DEN-8516-6-0001, DEN-8582-6-0001, DEN-8583-6-0001, DEN-8627-6-0001, DEN-8773-6-0001, and DEN-8878-6-0001*)

Advanced Technology Program

The three surveys and two audits reported on during this semiannual period covered projects having total estimated costs for the two- to three-year award periods exceeding \$11.5 million, with a federal share potentially as high as \$9 million. These three surveys also identified weaknesses in the recipients' financial management and accounting systems, most commonly the failure to adequately account for the federal funds, to properly claim and document only allowable costs, and to implement adequate policies and procedures.

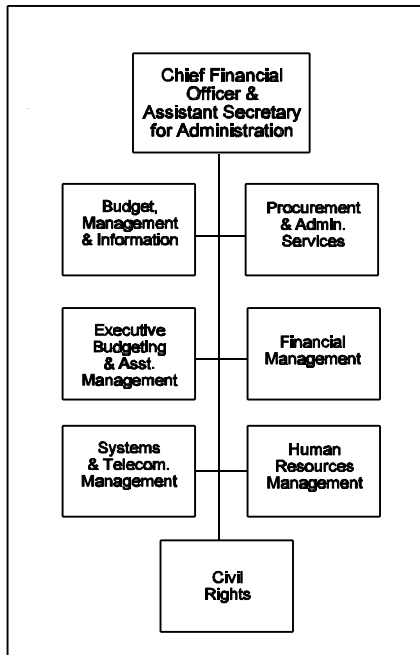
The two audits demonstrated the value of using accounting system surveys for early identification and resolution of audit issues. As a result of undergoing early surveys, both recipients had adequately accounted for the federal funds, had equaled or exceeded their matching share requirements, and had no questioned costs in the audit reports. (*Denver Regional Office of Audits: DEN-8688-6-0001, DEN-8724-6-0001, DEN-8819-6-0001, DEN-8846-6-0001, and DEN-8879-6-0001*)

In Brief

Suspension. A NIST employee was suspended for three days for engaging in unauthorized outside activities when an OIG investigation revealed that he had received about \$69,000 from sales of audiovisual equipment to various NIST employees and vendors. We initiated the investigation after receiving a complaint that the employee had played a major role in awarding a contract to a NIST vendor who was a customer of his private audiovisual business. Although we found no evidence to support the original allegation, we determined that the employee had violated specific conditions of the Department's approval of his outside business activities by dealing with individuals and companies with whom he dealt in his official capacity. (*Washington Field Office of Investigations*)



Departmental Management



Financial Statement Audits

The OIG is responsible for the financial statement audit of the Department of Commerce in accordance with provisions of the CFO Act, as amended by the Government Management Reform Act of 1994 (GMRA).

In the prior semiannual period, FY 1995 financial statement audits were completed for NTIA, NTIS, PTO, and the Department's Working Capital Fund (WCF), all of which received unqualified opinions. During this period, FY 1995 audits were completed for BEA, Census, EDA, ESA, ITA, MBDA, NIST, NOAA, and the Department's Salaries and Expenses (S&E) Fund. BEA, ESA, and NIST received unqualified opinions on their financial statements, while Census received a qualified opinion and MBDA received an unqualified opinion on their balance sheets. EDA, ITA, NOAA, and the S&E Fund all received disclaimers of opinion. Audits of the FY 1995 financial statements are underway for BXA and TA. An audit was attempted of the Department's Gifts and Bequests (G&B) Fund, but could not be performed. Close-out procedures are being performed for USTTA, which was abolished on April 15, 1996.

Although substantial progress has been made, additional efforts are needed to meet the GMRA requirement for audited agency-wide financial statements. Due to their size and the nature of the deficiencies in their internal controls, EDA, ITA, and NOAA merit added attention. EDA received a disclaimer on its FY 1995 balance sheet, with 10 material weaknesses and 11 other reportable conditions. ITA received a disclaimer of opinion on its financial statements, with six material weaknesses and three reportable conditions. NOAA also received a disclaimer on its statements, with 12 material weaknesses and eight reportable conditions.

Although we are encouraged by the bureaus' corrective action plans, prompt improvements are needed. Our primary concern is NOAA's failure to commit the staffing resources needed for timely actions to address its internal control deficiencies. Until sufficient resources are dedicated to improving financial management, it is unlikely that NOAA will be able to make the changes needed to obtain an unqualified opinion on its financial statements. And because NOAA is by far the largest accounting entity in Commerce, the Department is unlikely to receive other than a disclaimed audit opinion until NOAA's deficiencies are addressed.

Departmental Management

Entity	FY 1992	FY 1993	FY 1994	FY 1995
BEA	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified
BXA			Survey	Audit Underway
Census	Survey	Limited Scope	Disclaimer	Balance Sheet Qualified
EDA	Limited Scope	Balance Sheet Disclaimer	Disclaimer	Disclaimer
ESA	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified
G&B		Disclaimer		*
ITA	Survey	Limited Scope	Disclaimer	Disclaimer
MBDA			Survey	Balance Sheet Unqualified
NIST	Limited Scope	Balance Sheet Qualified	Unqualified	Unqualified
NOAA	Survey	**	Disclaimer	Disclaimer
NTIA	Survey	Balance Sheet Unqualified	Unqualified	Unqualified
NTIS	Unqualified	Unqualified	Unqualified	Unqualified
PTO	Survey	Balance Sheet Unqualified	Unqualified	Unqualified
S&E				Disclaimer
TA				Audit Underway
USTTA	Survey	Balance Sheet Disclaimer	Disclaimer	***
WCF	Survey	Balance Sheet Disclaimer	Balance Sheet Unqualified	Unqualified

Definitions:

A financial statements audit provides one of the following opinions:

Unqualified—the financial statements present fairly, in all material respects, the entity's financial position and results of operations.

Qualified—except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the entity's financial position and results of operations.

Adverse—the financial statements do not present fairly the entity's financial position or results of operations.

Disclaimer—the auditor does not express an opinion on the financial statements.

*An audit was attempted, but could not be performed.

**In FY 1993, we performed balance sheet audits of two NOAA entities—the Coastal Zone Management Revolving Fund and the Fishing Vessel Obligation Guarantee Program.

***Because USTTA was abolished, limited close-out procedures, rather than a financial statement audit, are being performed.

During this semiannual period, we worked with the Department to determine the actions needed to facilitate a successful audit of Commerce's consolidated financial statements. We have prepared and submitted to the General Accounting Office an audit plan covering the FY 1996 consolidated statements.

To meet our CFO Act responsibilities, we implemented an incremental audit approach that emphasized early detection and correction of major internal control problems. The chart on the previous page shows the progress made—from survey to limited scope to full scope audits, with disclaimer versus qualified versus unqualified opinions—in the Department's financial statement audits.

Departmental Procurement Deficiencies Need Immediate Attention

During a review of the operational effectiveness of NTIS, the OIG became aware of deficiencies in the way that NTIS procurement officials and contracting officers of the Department's Office of Acquisition Management (OAM) had handled two crucial Small Business Administration 8(a) contracts for NTIS. NTIS has only limited procurement authority, which it uses for awards of less than \$50,000 and delivery orders under existing contracts. Therefore, NTIS relies on other Commerce organizations for much of its procurement support. OAM fulfilled this support role until November 1995, when the responsibility was shifted to NIST.

In an inspection begun specifically to examine the procurement deficiencies, we discovered numerous improper contracting practices and procurement violations related to OAM-managed contracts. In two instances alone, the government incurred unauthorized cost growth of more than \$6.3 million largely because Commerce procurement personnel did not do their jobs effectively.

For example, two OAM contracting officers consistently failed to follow procurement statutes and regulations. The first (subordinate) contracting officer:

- ! Improperly issued an 8(a) contract without required SBA approval, proper Commerce legal review, or an adequate statement of work. Further, the contract did not cite available funds, creating a potential problem under the Anti-Deficiency Act.

The second (supervising) contracting officer:

- ! Improperly expanded the value of two 8(a) contracts beyond the \$3 million sole-source threshold without SBA approval, in violation of the applicable statute. These actions effectively excluded procurement actions totaling more than \$9 million from the competitive procurement process.
- ! Failed to incorporate mandatory clauses in two contracts. As a result, these contracts were improperly allowed to expand beyond their initial approved values.
- ! Allowed an 8(a) contract to be improperly used as a “pass-through” conduit for ineligible subcontractors. In this case, the contracting officer issued task orders that passed more than 50 percent of the contract labor requirements through the 8(a) contractor to large firms without competition.
- ! Routinely authorized millions of dollars of requirements outside the statement of work for an 8(a) contract. This had the effect of circumventing the competitive process, thereby increasing costs to the government.
- ! Consistently failed to obtain the required legal review for sole-source task and delivery orders of \$100,000 or greater issued against two large 8(a) contracts. Such legal review would have disclosed that these contracts were being used for purposes outside the statement of work and had expanded far beyond their initial approved value.

These actions suggest that the Department has failed to properly oversee the performance of OAM staff and NTIS procurement practices. Of particular concern is the fact that the identified deficiencies appeared at a time when the Department was “streamlining” its procurement procedures, emphasizing a policy of relying more on individual agency managers. We are concerned that these efforts may have gone too far, weakening the Department’s control over procurement actions.

We made a series of recommendations to the Department aimed at taking administrative action against the contracting officers who failed to do their jobs and strengthening the oversight role of departmental procurement activities. In response, the Department acknowledged the problems we highlighted, suggesting that they were partly caused by a misunderstanding of the SBA 8(a) process by the procurement officials, inadequate records management, and insufficient communication between two departmental contracting organizations.

The Department also listed some initial steps it plans to take to strengthen its procurement oversight in response to our recommendations. We believe that although the planned actions represent a good first step, they do not address the need to hold procurement officials accountable for the abuses and improper activities we identified. We also emphasize the need for appropriate training for all contract and program officials who have failed to comply with procurement regulations and departmental guidelines. (*Office of Inspections and Program Evaluations: IPE-9148*)

In a related performance audit, the OIG is examining the management and staffing of OAM's Office of Acquisition Policy and Programs, which provides policy and oversight support on procurement-related matters. In response to the National Performance Review, deficit reduction initiatives, and acquisition reform legislation, that office has taken significant steps to streamline the Department's acquisition process. However, our review has noted that the office has either eliminated or reduced its participation in key acquisition management functions, increasing the likelihood that acquisitions will be conducted improperly and inefficiently. In our final report, to be issued in the next semiannual period, we will be making recommendations for strengthening that office's oversight role. (*Economic Development Division*)

Audit of the Salaries and Expenses Fund's FY 1995 Financial Statements

The OIG conducted an audit of the General Administration's Salaries and Expenses Fund statement of financial position as of September 30, 1995. This was our first audit of the S&E Fund under the requirements of the Government Management Reform Act. We were not able to issue an opinion on the statement because the fund did not reconcile advances from others and provide adequate documentation to support the general ledger balance as of the end of the fiscal year.

Our review of the S&E Fund's internal control structure disclosed one material weakness—a lack of procedures to reconcile Advances & Reimbursables obligation billings to actual costs. Also disclosed were several reportable conditions, including the need to improve (1) controls over capital assets, (2) procedures over accounts payable, (3) procedures over the liquidation of undelivered orders, and (4) controls over Thrift Savings Plan contributions. In addition, standard operating procedures

should be established, updated, and implemented to ensure proper performance of assigned duties, and procedures for the overview section of the financial statements should be implemented. We also performed tests of the fund's compliance with laws and regulations and did not note any material instances of noncompliance. (*Financial Statements Audit Division: FSD-8671-6-0001*)

Efforts to Recover Consultants' Cash Advances and Improve Controls over Travel

In our March 1996 issue (see page 11), we reported that the House Committee on Commerce had requested that we identify invitational travelers, such as consultants, who had received cash advances for travel on departmental business and had failed to repay or otherwise account for the use of the advances. The Committee's interest was sparked by our discussion of this issue in our audit report on travel expenses, reported in our September 1995 issue (see page 75). In response to that request, we attempted to determine the rationale for the travel, whether the Department could collect any outstanding advances, and other actions the Department should take to prevent the problems from recurring.

We analyzed supporting documentation for invitational travelers in our sample, interviewed agency officials with knowledge of these individuals' travel, and determined the reasons for the reported balances and the likelihood of collection. Our work resulted in numerous agency officials taking actions to collect unpaid advances and account for travel taken by invitational travelers. In other cases, we could not locate agency officials with knowledge of the travel, or the officials we located could not provide the requested information.

In its response to our 1995 audit report, the Department committed itself to clearing the outstanding travel advances by March 31, 1997, and officials have taken measures to meet that commitment. Our recent review resulted in additional recommendations for improving travel accounting and collecting unpaid balances. In addition to other planned actions, the Department anticipates taking steps to minimize the advances provided to invitational travelers in the future, and to ensure the prompt accounting for advances and payment of any amounts owed to the Department. (*Economic Development Division*)

Investigation Uncovers Pattern of Misconduct by Senior Manager and Employees

A senior Commerce manager retired from federal service in the aftermath of an OIG investigation that uncovered evidence of fraud, misapplication of funds, and misuse of official position and government property in the operation of his office. In addition, a series of disciplinary actions—ranging from oral admonishments to suspensions—were taken against 16 of his employees, and one supervisory employee resigned after disciplinary action was proposed.

The investigation began as an inquiry into allegations of overtime fraud by the supervisor and his staff, but developed into a broader investigation when evidence of other serious misconduct on his part, and on the part of his manager, was detected. Among the abuses documented was the senior manager's improperly augmenting appropriated funds by directing his subordinates to use \$39,000 in non-Commerce funds provided under an interagency agreement to pay for work unrelated to the agreement. We also identified numerous instances in which the manager and the supervisor had instructed subordinates to perform personal services for the manager's benefit using government time, equipment, and supplies. In addition, on more than one occasion, the supervisor falsified purchase request forms in order to conceal the true nature and purpose of credit card purchases made in conjunction with these efforts.

Finally, our investigation determined that the supervisor had directed and approved the submission of false overtime claims for himself and his subordinates, resulting in their receipt of thousands of dollars in salary payments to which they were not entitled. Although the supervisor had been suspended previously for overtime abuse, we found no indication of any attempt by management to prevent a recurrence of such misconduct. In addition to the disciplinary action taken against them, the employees participating in the overtime scheme were compelled to repay to the Department the amounts fraudulently obtained. (*Washington Field Office of Investigations*)

Department Reimbursed by Former Official for Cost of Personal Mailing

A former high-ranking official agreed to pay the Department more than \$5,000 as reimbursement for stationery, postage, and official time used for a mass mailing announcing his imminent departure from Commerce to join a private firm. Just before leaving the Department in January 1996, the official prepared a farewell letter and directed his secretary to arrange for copies to be sent to addressees included on various mailing lists maintained by his office. Shortly thereafter, he notified the Department's General Counsel that, although he believed the letter to be an official communication, he understood that questions had been raised about its propriety, and he enclosed his personal check for \$560 to cover the cost of letterhead paper, envelopes, and postage for 1,400 addressees. The Office of General Counsel subsequently referred the matter to the OIG.

Our investigation determined that the mailing at issue constituted personal, rather than official, business. We also found that the task required the services of six DOC employees, who claimed to have spent a total of about 300 hours to prepare and distribute over 1,000 separate pieces of correspondence. Based on these findings, the Department requested the former official to reimburse the Department for an additional \$4,700, representing the cost of employee time spent on the unauthorized activity. (*Office of Investigations*)

Senior Official Reprimanded for Ethics Violation

A senior Department official received a written reprimand for violating government-wide standards of ethical conduct by accompanying representatives of a private software firm to a meeting at another federal agency, and participating in the company's sales presentation. Although there was no evidence that the official received any personal financial benefit for his participation, his presence at the meeting gave the appearance that he was representing a private company before a federal agency and endorsing its products. The matter was brought to our attention by officials of the other agency, who expressed serious concerns about the propriety of the official's actions as a Commerce employee. (*Office of Investigations*)

Processed Preaward/Postaward Contract Audits

The Department's bureaus require many types of supplies and services to help meet their mission needs. Procurement offices must help the bureaus obtain the best products or services at the best prices. To that end, preaward audits are routinely requested, through the OIG, to assist bureau contracting officers in evaluating an offeror's proposed costs, accounting system, financial capability, management ability, and technical competence. These audits are usually performed by the Defense Contract Audit Agency.

In support of preaward contract audits, we:

- ! Provide assistance in identifying the need for preaward audits, determine whether the data submitted in the audit package is adequate and complete, and ensure that technical evaluations are provided to the auditors, as needed.
- ! Monitor the progress of the audits and discuss the audit scope, methodology, and results with the DCAA auditor.
- ! Review the audit reports for completeness and compliance with the Department's requests.
- ! Attend negotiations of procurements for major systems whenever the contracting officer requests our assistance.

Postaward contract audits are required by the Federal Acquisition Regulation. We coordinate and monitor the processing of the reports on these audits, also generally conducted by DCAA.

During the second half of FY 1996, 91 audit requests were received and processed by the OIG:

- ! 10 preaward audit requests with an audited value of \$22,301,090.
- ! 9 postaward audit requests with an audited value of \$8,095,494.
- ! 72 miscellaneous audit requests, including rate reviews and accounting system reviews.

The number of processed audit reports issued totaled 61:

- ! 47 preaward audit reports cited \$639,684 in potential funds to be put to better use.
- ! 1 postaward audit report.
- ! 13 special audit reports.

Recommendations made in 11 preaward contract audits were resolved in contract negotiations, resulting in \$562,732 in funds to be put to better use. As of September 30, 1996, seven NOAA preaward contract audits (dollar value: \$14,658,723) that were issued before April 1996 had recommendations on which a final management decision by the contracting officer had not been reported. (*Office of Audit Resolution and Administration*)

Preaward Financial Assistance Screening

We continue to work with the Department's Office of Executive Budgeting and Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen all of the Department's grants, cooperative agreements, and loan guarantees before award. Our screening (1) provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards and (2) determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

We screened 1,446 proposed recipients. In 38 cases, we found major deficiencies affecting the ability of the proposed recipients to maintain proper control over federal funds. On the basis of information we provided, the Department declined or delayed the federal funds, or designated certain recipients as "high risk" and required that disbursement of federal funds be on a cost reimbursement basis. (*Office of Audits*)

Preaward Screening Results		
Results	Number	Amount
Awards declined/delayed	4	\$2,177,100
Special award conditions	9	\$1,839,923
Cost reimbursement basis	25	\$15,962,275

Indirect Cost Reviews

OMB has established a policy whereby a single federal agency is responsible for the review, negotiation, and approval of indirect cost rates for use on federal programs. Normally, the federal agency providing the predominant amount of direct funding is the cognizant agency. OMB has designated the Department of Commerce as the cognizant agency for about 280 economic development districts. In turn, the Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on behalf of each of its agencies. The OIG reviews and approves the methodology and principles used in pooling indirect costs and establishing a common base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, the OIG negotiated 27 indirect cost rate agreements with nonprofit and for-profit organizations, and reviewed and approved 50 cost allocation plans. It also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, it has worked closely with first time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review.
(Atlanta Regional Office of Audits)

Nonfederal Audit Activities

In addition to OIG-performed audits, audits of the Department's financial assistance programs are performed by state and local government auditors and by independent public accountants. OMB Circulars A-128, *Audits of State and Local Governments*, and A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*, set forth the requirements for audits of those entities.

During this semiannual period, we received 531 audit reports prepared by nonfederal auditors. We also had 39 unprocessed reports from the last semiannual period. For 225 of these reports, the Department is the agency responsible for monitoring compliance with the two OMB circulars. The other reports are from entities for which other federal agencies have general oversight responsibility. We examined 495 of the reports we received during this period to determine whether they contained audit findings on any Department programs.

Report Category	Number
Pending (March 31, 1996)	39
Received	531
Examined	495
Pending (September 30, 1996)	75

The following table shows a breakdown by bureau of the \$353 million in Commerce funds audited.

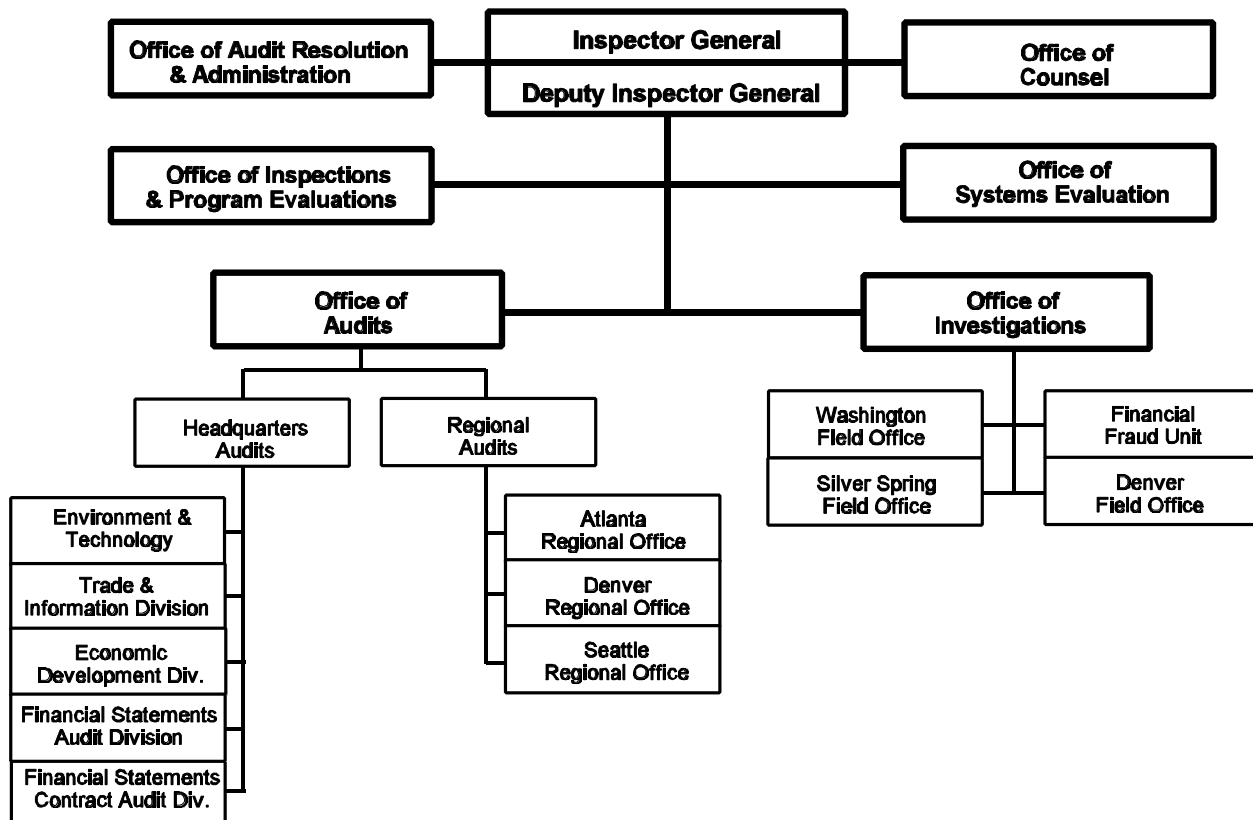
Bureau	Funds
EDA	\$84,850,228
ESA	368,821
ITA	4,269,013
MBDA	6,514,831
NOAA	143,034,063
NTIA	7,015,240
PTO	492,277
TA	106,452,759
Total	\$352,997,232

We identified a total of \$597,557 in questioned costs and \$11,988 in funds to be put to better use. In most reports, the Department's programs were considered non-major, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions by the auditors. The 13 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

Besides monitoring the work of nonfederal auditors under OMB Circulars A-128 and A-133, we are participating on the Compliance Supplement Task Force with OMB, GAO, and other OIGs to revise and consolidate the compliance supplements for these circulars. The task force's efforts will simplify the federal guidance to nonfederal auditors performing audits of federal funds. The new supplement will provide guidance on what to test (compliance requirements), why to test (audit objectives), and how to test (suggested audit procedures).



Office of Inspector General



Telephone Numbers

Inspector General	(202) 482-4661	Office of Audits	(202) 482-0279
Congressional Liaison	(202) 482-3052	Office of Inspections and Program Eval.	(202) 482-2754
Office of Audit Resolution and Admin	(202) 482-1934	Office of Systems Evaluation	(202) 482-6186
Office of Counsel	(202) 482-5992	Office of Investigations	(202) 482-0934

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Reporting Requirements



INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	76
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5(a)(2)	Significant Recommendations for Corrective Action	16-73
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5(a)(6)	Listing of Audit Reports	85-92
5(a)(7)	Summary of Significant Reports	16-73
5(a)(8)	Audit Reports—Questioned Costs	81, 84
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5(a)(11)	Significant Revised Management Decisions	14, 79
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Section 4(a)(2): Review of Legislation and Regulations

This section requires the Inspector General of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on that review, the Inspector General is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations.

Our comments and recommendations regarding the proposed legislation that would establish PTO as a government corporation are discussed on page 55. Other draft legislation discussed relates to the NOAA Corps (see page 3) and the Census Bureau (see page 29).

Section 5(a)(3): Prior Significant Recommendations Unimplemented

This section requires an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.

Section 5(b) requires that the Secretary transmit to the Congress statistical tables for audit reports for which no final action has been taken, plus a statement that includes an explanation of the reasons final action has not been taken on each such audit report, except when the management decision was made within the preceding year.

Prior Inspector General semiannual reports have explained that to include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this Inspector General's semiannual report is being prepared, management is in the process of updating the Department's Audit Tracking System as of September 30, 1996, based on semiannual status reports due from the bureaus in mid-October. An accurate database is therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the OIG's Office of Audit Resolution and Administration.

Sections 5(a)(5) and 6(b)(2): Information or Assistance Refused

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no such instances during this semiannual period, and no reports to the Secretary.

Section 5(a)(10): Prior Audit Reports Unresolved

This section requires a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

As of September 30, 1996, one performance audit, two financial assistance audits, seven preaward contract audits, and one postaward contract audit were in this category, as discussed below. The unresolved financial assistance audits included one Circular A-133 audit.

Performance Audit

The unresolved report addresses NWS's plans for streamlining its headquarters and support operations staff. This report is discussed in more detail on page 50.

Financial Assistance Audits

The two unresolved audits relate to NOAA awards. Audit resolution proposals have been submitted; however, OIG-NOAA discussions were not able to resolve the reports on a timely basis. Additional details are presented on page 51.

Preaward Contract Audits

The Department's Audit Tracking System recorded seven preaward contract audits unresolved for more than six months, including four presented in the prior semiannual report. These audits, based on DCAA and Department of Health and Human Services reviews of contract proposals, are resolved when a contracting officer takes final action on the pending procurement, such as awarding a contract or issuing a contract

Reporting Requirements

modification. Often the procurement action will resolve multiple audits involving competing proposals submitted in response to competitive solicitations.

The seven unresolved NOAA preaward contract audits, listed below, are being negotiated and are expected to be resolved shortly. They do not indicate a resolution problem that warrants congressional attention.

- ! ADD-6673-4-0075, June 22, 1994
- ! ADD-7348-5-0026, January 17, 1995
- ! ADD-7348-5-0041, February 21, 1995
- ! ADD-7348-5-0060, June 6, 1995
- ! ADD-8350-6-0006, October 20, 1995
- ! ARA-8350-6-0021, February 7, 1996
- ! ARA-8350-6-0023, February 23, 1996

Postaward Contract Audit

There was one postaward contract audit unresolved in excess of six months. Under the Department's audit resolution directive, the contracting officer has sole responsibility for determining the action to be taken on each contract audit finding and recommendation.

- ! ATL-4349-3-0001, September 30, 1993 (The Advertising Council, Inc.)

The OIG audit found significant deficiencies in procurement practices by the Ad Council and its subcontractors (see September 1993 issue, page 33). The report is discussed in more detail on page 31.

Section 5(a)(11): Significant Revised Management Decisions

This section requires a description and explanation of the reasons for any significant revised management decision made during the reporting period.

Department Administrative Order 213-5, “Audit Resolution and Follow-up,” provides procedures for revising a management decision. For performance audits, the OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, the OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient.

During the reporting period, the OIG reviewed two proposed modifications to management decisions. The modification requests involved audit reports issued in 1990 and 1994. The OIG concurred with the proposed adjustments on one audit, but not on the other.

The decisions issued on the two appeals of audit-related debts were finalized with the full participation and concurrence of the OIG.

Section 5(a)(12): Significant Management Decisions with Which the OIG Disagreed

This section requires information concerning any significant management decision with which the Inspector General is in disagreement.

DAO 213-5 provides procedures for the elevation of unresolved audit recommendations to higher levels of Department and OIG management, including an Audit Resolution Council. During this period, no audit issues were referred to the Council.



Tables and Appendixes

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B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use	92
Definitions	
<p>The term questioned cost refers to a cost that is questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.</p>	
<p>The term unsupported cost refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term recommendation that funds be put to better use refers to a recommendation by the OIG that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings that are specifically identified.</p>	
<p>The term management decision refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.</p>	

Table 1: Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	18	\$ 3,497,818	\$748,485
B. Reports issued during the reporting period	24	2,996,687	1,975,716
Total reports (A + B) requiring a management decision during the reporting period	42	6,494,505	2,724,201
C. Reports for which a management decision was made during the reporting period	29	3,651,980	1,556,726
i. Value of disallowed costs		1,831,706	1,251,510
ii. Value of costs not disallowed		1,820,274	305,216
D. Reports for which no management decision had been made by the end of the reporting period	13	\$2,842,525	\$1,167,475
Notes and Explanations: In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations. Seven audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see Table 2). However, the dollar amounts do not overlap. No postaward contract audits are included in this table; instead, those audits are listed in Table 4.			

Tables and Appendixes

Table 2: Audits with Recommendations		
That Funds Be Put to Better Use		
Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	11	\$102,019,107
B. Reports issued during the reporting period	9	93,951,538
Total reports (A + B) requiring a management decision during the reporting period	20	195,970,645
C. Reports for which a management decision was made during the reporting period	14	70,940,930
i. Value of recommendations agreed to by management		33,040,805
ii. Value of recommendations not agreed to by management		38,072,195
D. Reports for which no management decision had been made by the end of the reporting period	6	\$125,029,715
Notes and Explanations: In Category C, line i contains one report that had funds to be put to better use identified during the resolution process. In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations. Seven audit reports included in this table are also included in the reports with questioned costs (see Table 1). However, the dollar amounts do not overlap. No preaward contract audits are included in this table; instead, those audits are listed in Table 3.		

Table 3: Preaward Contract Audits with
Recommendations That Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	18	\$6,107,453
B. Reports issued during the reporting period	5	578,286
Total reports (A + B) requiring a management decision during the reporting period	23	6,685,739
C. Reports for which a management decision was made during the reporting period	11	4,483,475
i. Value of recommendations agreed to by management		562,732
ii. Value of recommendations not agreed to by management		3,877,578
iii. Value of reports on proposals that were not awarded contracts		43,165
D. Reports for which no management decision had been made by the end of the reporting period	12	\$2,202,264
Notes and Explanations: Preaward audits of contracts include results of audits performed for the OIG by other agencies. In Category B, all reports were prepared for the OIG by the Defense Contract Audit Agency. When there are multiple proposals for the same contract, we report only the proposal with the lowest dollar value for funds to be put to better use; however, in Category C, lines i-ii, we report the value of the awarded contract. In Category C, lines i-iii do not always equal the total on line C since resolution may result in values greater than the original recommendations.		

Tables and Appendixes

Table 4: Postaward Contract Audits with Questioned Costs			
Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	3	\$2,559,802	\$2,452,340
B. Reports issued during the reporting period	--	--	--
Total reports (A + B) requiring a management decision during the reporting period	3	2,559,802	2,452,340
C. Reports for which a management decision was made during the reporting period	2	51,438	--
i. Value of disallowed costs		1,931	--
ii. Value of costs not disallowed		49,507	--
D. Reports for which no management decision had been made by the end of the reporting period	1	\$2,508,364	\$2,452,340
Notes and Explanations: In Category C, lines i and ii do not always equal the total on line C since resolution may result in values greater than the original recommendations.			

Appendix A. Office of Inspector General Reports		
Type	Number	Appendix
Performance Audits	5	A-1
Inspections	7	A-2
Financial Statements Audits	9	A-3
Financial Assistance Audits	26	A-4
Total	47	

Appendix A-1. Performance Audits				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Economic Development Administration	\$61 Million in Economic Development Revolving Fund Should Be Put to Better Use	EDD-8732-6-0001	09/96	\$61,000,000
International Trade Administration	Administrative Activities Should Be Further Streamlined	TID-7325-6-0001	07/96	1,210,000
National Oceanic and Atmospheric Administration	NWS Tsunami Warning Program Should Be Consolidated	STL-7066-6-0001	08/96	9,000,000
	OAR's Cost Recovery for Sponsored Research Needs Improvement	STL-7658-6-0001	06/96	20,900,000
	Interagency Agreements with the Environmental Protection Agency	STL-8450-6-0001	09/96	--

Tables and Appendixes

Appendix A-2. Inspections				
Agency	Subject	Number	Date	Funds to Be Put to Better Use
Bureau of Export Administration	Department of Commerce's Export License Application Screening Process	IPE-8647	09/96	--
Economics and Statistics Administration	Census Data Capture System 2000 Needs Acquisition and Management Improvements	OSE-7329(2)	07/96	\$3,000,000
National Oceanic and Atmospheric Administration	Office of Aeronautical Charting and Cartography Should Be Transferred to FAA	IPE-8646	09/96	--
	Outsourcing Efforts for the Antarctic Marine Living Resources Charter	IPE-8865	08/96	--
Office of the Secretary	Procurement Deficiencies in the Office of Acquisition Management Require Immediate Attention	IPE-9148	09/96	--
Technology Administration	NIST Leased Space in Gaithersburg No Longer Justified	IPE-8377(1)	08/96	16,300,000
	\$32 Million in NIST's Capital Improvements Facilities Program Funds Improperly Obligated	IPE-8377(2)	07/96	--

Appendix A-3. Financial Statements Audits			
Agency	Subject	Number	Date
Economic Development Administration	Financial Statements for FY 1995	FSD-7839-6-0001	04/96
Economics and Statistics Administration	BEA Financial Statements for FY 1995	FSD-8411-6-0001	04/96
	Census Financial Statements for FY 1995	FSD-7700-6-0001	04/96
	ESA Financial Statements for FY 1995	FSD-8410-6-0001	04/96
International Trade Administration	Financial Statements for FY 1995	FSD-7701-6-0001	04/96
Minority Business Development Agency	Statement of Financial Position for FY 1995	FSD-8130-6-0001	04/96
National Oceanic and Atmospheric Administration	Consolidating Financial Statements as of and for the Year Ended September 30, 1995	FSD-7703-6-0001	04/96
Office of the Secretary	General Administration's Salaries and Expenses Fund Statement of Financial Position as of September 30, 1995	FSD-8671-6-0001	09/96
Technology Administration	NIST Financial Statements for FY 1995	FSD-7699-6-0001	04/96

Tables and Appendixes

Appendix A-4. Financial Assistance Audits						
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	New York City Economic Development Corporation	ATL-8371-6-0001	04/96	\$436,066	\$436,066	\$1,377,734
	Village of Key Biscayne, FL	ATL-8586-6-0001	05/96	--	--	--
	Joint Venture: Silicon Valley Network, CA	STL-8088-6-0001	05/96	103,819	--	224,510
	Seminole Tribe of Florida	ATL-8585-6-0001	06/96	--	--	--
	Advanced Sciences Incorporated, NM	DEN-8584-6-0001	06/96	848	--	--
	Show-Me Regional Planning Commission, MO	DEN-8180-6-0001	07/96	20,789	6,548	7,591
	City of Rockford, IL	DEN-7908-6-0001	09/96	83,270	83,270	219,715
International Trade Administration	Americom Business Centers, Inc., CA	ADD-7948-6-0001	05/96	237,192	232,593	--
National Oceanic and Atmospheric Administration	South Carolina Coastal Council	ATL-7863-6-0001	05/96	205,407	--	--
National Telecommunications and Information Administration	Marshall Heights Community Development Organization, Inc., DC	ATL-8636-6-0001	09/96	235,909	228,184	--
	Georgia Division of Public Health	ATL-8637-6-0001	09/96	210,717	190,402	--
Technology Administration - NIST	Delaware Valley Industrial Resource Center, PA	DEN-8446-6-0001	04/96	--	--	--
	Texas Department of Commerce	DEN-8449-6-0001	04/96	43,988	--	--
	Illinois Department of Commerce and Community Affairs	DEN-8583-6-0001	04/96	--	--	--
Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.						

Appendix A-4. Financial Assistance Audits—Continued						
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Technology Administration-NIST	Cleveland Advanced Manufacturing Program, Manufacturing Learning Center, OH	DEN-8627-6-0001	04/96	--	--	--
	Edison Industrial Systems Center, OH	DEN-8515-6-0001	05/96	7,366	--	--
	North Carolina State University	DEN-8447-6-0001	06/96	723,653	723,653	--
	Sagent Corporation, WA	DEN-8688-6-0001	07/96	84,620	--	--
	Accuwave Corporation, CA	DEN-8819-6-0001	07/96	--	--	--
	Maine Science and Technology Foundation	DEN-8516-6-0001	08/96	--	--	--
	AT&T Bell Laboratories, NJ	DEN-8846-6-0001	08/96	--	--	--
	Mid-America Manufacturing Technology Center, WY	DEN-8878-6-0001	08/96	--	--	--
	Mid-America Manufacturing Technology Center, KS	DEN-8773-6-0001	09/96	--	--	--
	Regional Technology Strategies, Inc., NC	DEN-8582-6-0001	09/96	5,486	--	--
	Extempo Systems, Inc., CA	DEN-8724-6-0001	09/96	--	--	--
	Cynosure, Inc., MA	DEN-8879-6-0001	09/96	--	--	--
Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.						

Tables and Appendixes

Appendix B. Processed Reports				
The Office of Inspector General reviewed and accepted 556 financial related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs or with recommendations that funds be put to better use are listed in Appendixes B-1 and B-2.				
Agency	OMB A-128 and A-133 Audits	Contract Audits		Total
		Preaward	Postaward	
Economic Development Administration	206	--	--	206
International Trade Administration	3	--	--	3
Minority Business Development Agency	16	--	--	16
National Oceanic and Atmospheric Administration	32	37	--	69
National Telecommunications and Information Administration	30	--	--	30
Patent and Trademark Office	1	8	13	22
Technology Administration	36	2	1	39
Multi-Agency	68	--	--	68
Agency Not Identified	103	--	--	103
Total	495	47	14	556

Appendix B-1. Processed Financial Assistance Audits						
Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Economic Development Administration	East Central Intergovernmental Association Business Growth, Inc., IA	ATL-9999-6-0306	05/96	\$97,000	--	--
	Green River Area Development, KY	ATL-9999-6-0179	06/96	12,314	--	--
	North Central Florida Regional Planning Council	ATL-9999-6-0539	06/96	19,123	--	--
	Ohio Valley Regional Development Commission	ATL-9999-6-0657	06/96	--	--	\$11,988
	City of Chillicothe, MO	ATL-9999-6-0641	07/96	6,412	--	--
	Greater Richmond Community Development Corporation, CA	ATL-9999-6-0602	09/96	--	--	--
	State of Hawaii Department of Agriculture	ATL-9999-6-0953	09/96	85,733	--	--
	Stark Development Board Finance Corporation, OH	ATL-9999-6-1072	09/96	34,000	--	--
Minority Business Development Agency	IMPACT Business Consultants, Inc., OR	ATL-9999-6-0829	09/96	--	--	--
National Oceanic and Atmospheric Administration	Commonwealth of Massachusetts	ATL-9999-6-0628	07/96	19,306	--	--
	Commonwealth of Virginia	ATL-9999-6-0944	08/96	3,803	--	--
	State of Connecticut, University of Connecticut	ATL-9999-6-0864	09/96	24,466	--	--
Technology Administration	Combion, Inc., CA	ATL-9999-6-0812	06/96	295,400	\$75,000	--
Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.						

Tables and Appendixes

Appendix B-2. Processed Contract Audits with Questioned Costs or Funds to Be Put to Better Use						
Agency	Number	Type	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
National Oceanic and Atmospheric Administration	ARA-8350-6-0040	Preaward	05/96	--	--	\$6,359
	ARA-8350-6-0055	Preaward	06/96	--	--	48,355
	ARA-8350-6-0063	Preaward	07/96	--	--	61,398
	ARA-8350-6-0064	Preaward	07/96	--	--	1,949
	ARA-8350-6-0065	Preaward	07/96	--	--	53,798
	ARA-8350-6-0082	Preaward	08/96	--	--	467,825
Notes: These audits were performed for the OIG by the Defense Contract Audit Agency. This list contains all processed preaward contract audits with funds to be put to better use. However, when there are multiple proposals for the same contract, only the proposal with the lowest dollar value is reported in Table 3, page 83.						

Glossary of Abbreviations



AC&C	Office of Aeronautical Charting and Cartography
AMLR	Antarctic Marine Living Resources
AWIPS	Advanced Weather Interactive Processing System
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFO	Chief Financial Officer
CIFP	Capital Improvements Facilities Plan
CPA	certified public accounting
DCAA	Defense Contract Audit Agency
DCS 2000	Data Capture System 2000
EAC	export assistance center
EDA	Economic Development Administration
EPA	Environmental Protection Agency
ESA	Economics and Statistics Administration
FAA	Federal Aviation Administration
GMRA	Government Management Reform Act
GOES	Geostationary Operational Environmental Satellite
GPRA	Government Performance and Results Act
IRS	Internal Revenue Service
ITA	International Trade Administration
MBDA	Minority Business Development Agency
NASA	National Aeronautics and Space Administration
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NSF	National Science Foundation
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OA	Office of Administration
OAM	Office of Acquisition Management
OAR	Office of Oceanic and Atmospheric Research
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBO	performance-based organization
PTO	Patent and Trademark Office
RLF	revolving loan fund
SBA	Small Business Administration
S&E	Salaries and Expenses
TA	Technology Administration
TIAP	Telecommunications and Information Infrastructure Assistance Program
UCAR	University Corporation for Atmospheric Research
US&FCS	U.S. and Foreign Commercial Service
WCF	Working Capital Fund